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China's dash for freedom

And how the Olympics slowed it down



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Print Edition August 2nd 2008

China's dash for freedom
China's rise is a cause for celebration—but despite the Beijing Olympics, not because of them: leader



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Politics this week

Jul 31st 2008
From The Economist print edition

Reuters



Israel's prime minister, Ehud Olmert, who has been dogged by accusations of corruption involving an American benefactor, said he would step down in two months. The leading candidates to take over are his foreign minister, Tzipi Livni, and his transport minister, Shaul Mofaz, a former chief of staff of the armed forces. In any event, a general election, due next year, could—say the opinion polls—bring back Binyamin Netanyahu and his right-wing Likud party. See article

Political progress in **Iraq** stalled when a bill to pave the way for provincial elections was rejected by the president, though an amended version may be offered at an emergency session of the parliament. Bombs in the capital, Baghdad, and in the disputed city of Kirkuk killed at least 57 people, bucking a trend towards less violence. See article

Representatives of Robert Mugabe's ruling ZANU-PF party and the **Zimbabwean** opposition Movement for Democratic Change broke off talks after a week of negotiations to form a joint administration, though South Africa's president, Thabo Mbeki, the chief mediator, said they would soon resume. Meanwhile, Zimbabwe's central bank said it would redenominate the country's almost worthless currency by cutting ten zeros from it.

Some goodish news on **AIDS**. The annual UN report on the disease suggested the number of deaths had fallen from 2.2m in 2005 to 2m in 2007, and that the number of new infections is continuing to fall, because people are changing their behaviour to avoid infection.

It really is just not their year

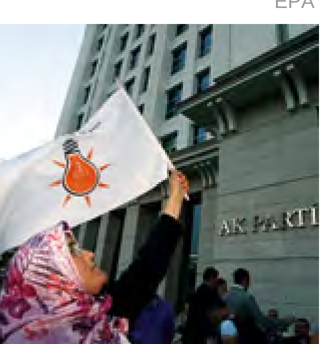
Ted Stevens, a Republican senator from Alaska, was indicted for corruption in connection with renovations to his house. The charges come amid a broader federal investigation into corruption in Alaskan politics that could ensnare others. See article

Barack Obama returned from his visit to the Middle East and Europe to continue his duel with John McCain over foreign policy. The Arizona senator attacked Mr Obama's policy on Iraq, calling it "the audacity of hopelessness". Polls suggested that Mr Obama did not get a boost domestically from his trip abroad; one survey actually gave Mr McCain a lead among likely voters for the first time since May.

The White House estimated that the **budget deficit** would reach a record $482 billion in the 2009 budget year, excluding funding for the Iraq war.

Judicial review

EPA



Turkey's highest court decided not to impose a ban on the governing Justice and Development Party, which was facing charges of steering the secular nation towards Islamic rule. Instead, the party will face financial penalties. Anxiety about the decision had stirred political unrest in Turkey. See article

Three days before the court ruling, two bombs in **Istanbul** killed 17 people. The prime minister, Recep Tayyip Erdogan, said the bombs were a "cost" of the military crackdown on Kurdish rebels.

The former Bosnian Serb leader, **Radovan Karadzic,** was extradited to The Hague where he was charged with war crimes related to genocide. His arrival

came after violent clashes at a rally in Belgrade attended by 10,000 Serb nationalists protesting against his arrest.

British members of Parliament began their summer holidays amid febrile speculation about **Gordon Brown's** future as his foreign secretary, David Miliband, appeared to throw his hat in the ring in a leadership challenge. Mr Brown's Labour Party had earlier lost one of its safest seats in Scotland to the Scottish nationalists in a by-election. See article

A bomb was detonated among highway roadworks in **Spain's** Basque region, causing structural damage. Officials blamed ETA. Earlier, court documents revealed that several alleged members of an ETA terror cell detained by police were intending to target the region of Andalusia and murder a Basque senator and a judge.

Mountain conflict

Soldiers from India and Pakistan clashed in **Kashmir** in the most serious confrontation between the two countries since 2003, when a ceasefire was brokered over the disputed territory. Gunfire along the line of control left at least one Indian soldier dead and each country blaming the other for the incident.

A spate of bomb blasts in Ahmedabad, the biggest city in the Indian state of **Gujarat**, killed more than 50 people. A group calling itself the Indian Mujahideen claimed responsibility in apparent revenge for communal violence in Gujarat in 2002, when some 2,000 Muslims were killed. A few days after the attack in Ahmedabad police defused 22 bombs in the nearby city of Surat. See article

China, which had promised improvements in human rights when it was awarded the Olympics, rejected claims from Amnesty International that its record had worsened. Meanwhile, Olympic officials admitted that journalists covering the games in China would not have unrestricted access to the internet. See article

In **Cambodia**, the ruling Cambodian People's Party claimed a landslide win in parliamentary elections, handing another five-year term as prime minister to Hun Sen. International observers raised concerns about voter intimidation and the party's use of state resources to campaign. See article

Days before he was officially crowned monarch of the South Pacific nation of **Tonga**, King George Tupou V pledged to give up near-absolute power in government. The monarchy has long promised democratic reforms, but they have come slowly.

AFP

Grounded

Ecuador said that the United States must stop using a base at Manta for anti-drug flights when its lease expires next year. A draft new constitution backed by Ecuador's leftist president, Rafael Correa, bans foreign military bases. See article

The **Vatican** granted a papal dispensation to allow Fernando Lugo, who is due to take office as Paraguay's president later this month, to resign as a Roman Catholic bishop. It is the first time that a bishop, rather than an ordinary priest, has been allowed to resign.

To the disappointment of many **Cubans**, Raúl Castro made no announcements of further reforms in his speech on the July 26th anniversary of the start of the Communist revolution. He called for austerity in the face of rising food and fuel prices. See article

Business this week

Jul 31st 2008
From The Economist print edition

Negotiations at the World Trade Organisation to shape an agreement on the **Doha** round of trade talks collapsed when the United States, India and China failed to resolve differences over protection for agricultural goods in developing countries. There seems to be no chance of finishing the round this year, if at all. See article

America’s Congress passed a **housing bill** that includes measures to shore up Fannie Mae and Freddie Mac, two troubled mortgage giants. The bill also allows some 400,000 homeowners to refinance their bank mortgages with loans backed by the government. Supporters of the legislation say it will help stem foreclosures and provide a boost to a moribund housing market. Opponents argue the legislation is a taxpayer-funded bail-out of reckless borrowers. See article

Steady as she goes

Citing “continued fragile circumstances” in the markets, the **Federal Reserve** took measures “to enhance the effectiveness of its existing liquidity facilities”. This included extending the period during which Wall Street banks can take advantage of the Fed’s discount rate (normally reserved for retail banks) until the end of January.

The Securities and Exchange Commission extended a rule that halts **short-selling** the shares of 19 financial companies until August 12th (after which it will not be renewed). The rule came in amid fears that false rumours were dragging stocks down in a bout of market turmoil in mid-July.

Kohlberg Kravis Roberts unveiled its long-awaited plan to turn itself into a public company. Rather than selling shares, the famed private-equity firm will base its listing on the New York Stock Exchange on the acquisition of its European affiliate, KKR Private Equity Investors. Estimates of KKR’s market value now range between $16 billion and $19 billion, a lot lower than when the firm first mooted going public last year. Even that may be optimistic.

Merrill Lynch took more steps to repair its balance sheet by selling $30.6 billion in distressed mortgage-related assets (at a huge discount) and raising $8.6 billion in capital through a share offering. See article

Not what the markets needed

Russian stockmarkets took fright when Vladimir Putin, the prime minister, attacked the tax record and export practices of **Mechel**, a big mining company. Observers noted similarities with the tactics that eventually sank Yukos, an oil company which underwent a lengthy campaign of state harassment. Separately, the boss of BP urged foreign investors to tread carefully in Russia. His warning came after the chief executive of **TNK-BP**, the British oil firm’s Russian joint venture, left Moscow over a dispute with Russian shareholders. See article

Russian stockmarket
RTS index, September 1st 1995=100
2,600
2,400
2,200
2,000
1,800
J F M A M J J
2008
Source: Thomson Datastream

In a move that is extraordinary for corporate Germany, **Siemens** said it would sue 11 former members of its executive board for allegedly breaching their supervisory responsibilities in a bribery scandal. One of the 11 is Klaus Kleinfeld, a former chief executive, who is now the boss of Alcoa, the world’s leading producer of aluminium.

Both the chairman and chief executive of **Alcatel-Lucent** resigned as it reported its sixth consecutive quarterly net loss. The merger in 2006 of France’s Alcatel and America’s Lucent formed one of the world’s biggest suppliers of telecoms infrastructure. Since then its market value has fallen by half, thanks to difficulties with integrating the company. See article

Spain’s **Gas Natural** launched a takeover bid for **Union Fenosa**, a domestic rival. It is Gas Natural’s third attempt to hook up with a big partner in Spain’s rapidly consolidating power industry, having been rebuffed by Endesa in 2005 and Iberdrola in 2003.

More consolidation beckoned in the airline industry as **British Airways** and Spain’s **Iberia** said they were holding talks about a merger. See article

Ryanair’s share price fell by 23% after the airline reported a quarterly loss and forecast that it might make an annual loss, which would be the first since its flotation in 1997. With other carriers, Europe’s biggest low-cost airline has been hit by high fuel prices. Michael O’Leary, Ryanair’s combative boss, promised to continue slashing prices, though some routes will be curtailed.

Some Sirius news

Sirius completed its merger with **XM**, 17 months after the combination of the satellite-radio networks was first proposed. The deal was delayed amid intense scrutiny from antitrust regulators.

Nintendo’s quarterly profit rose by a third compared with a year earlier, boosted by worldwide sales of its **Wii** video-game console, which soared by just over 50%. The firm also sold 3.4m “Wii Fit” games, a wildly popular interactive exercise programme.

KAL's cartoon

Jul 31st 2008
From The Economist print edition

Illustration by KAL



China’s dash for freedom

Jul 31st 2008
From The Economist print edition

China’s rise is a cause for celebration—but despite the Beijing Olympics, not because of them



“SPORT”, as George Orwell noted more than 60 years ago, “is an unfailing cause of ill-will.” This newspaper generated some of its own in 2001, when we argued against the award of the 2008 Olympics to Beijing, and drew comparisons to the Nazi-organised games in Berlin in 1936 (see article). Chinese officialdom and many ordinary citizens were furious: another petulant effort by Western foes to thwart China’s inexorable rise.

A futile effort, too: Beijing won the games, and some would say the argument. As tourists land at the city’s futuristic airport, or troop into the spectacular new stadiums, many will catch their breath in wonder at the sheer scale of the modernisation China has wrought so quickly. China’s rise has indeed continued, in double-digit rates of economic growth, and in the growing recognition that it is a future superpower that cannot be ignored on any global issue, whether global warming or, as our leader on the collapse of the Doha round argues, global trade. Surely the Olympics, a bonanza for business as much as for athletes (see our special report this week), are the fitting symbol for this? The precedent is not Berlin 1936, but Tokyo 1964 or Seoul 1988, celebrating the coming of age of an economic power: only bigger and better, as befits the peaceful reintegration into the world of one in five of its inhabitants.

Games but no fun

This is indeed a cause for great celebration. But the Olympics have had little to do with it. On balance, the award of the games has done more harm than good to the opening up of China. The big forces driving that opening are independent of the games (see article). One is the speed with which China globalised in the 1980s and 1990s and then accelerated to a breakneck pace after accession to the World Trade Organisation in 2001. The other is the spread of the internet and mobile telephony that have transformed society. The Olympics, by contrast, have seen the Communist Party reassert an authoritarian grip over Beijing. It has used the pretext of an alleged terrorist threat to impose a restrictive security cordon on the city and curtail visas even for harmless businessmen.

The intense international scrutiny may have moderated the response of the security forces for a brief period at the beginning of the riots in Tibet in March. It may have had some effect on the way the authorities handled the relief effort after May’s earthquake in Sichuan province. The government has also made it easier for foreign reporters to travel round China. But in most cases the security forces are as thuggish as ever; and the internet was anyway forcing the party’s information-management systems to

cope with new pressures.

Those who have argued for the beneficial effect of the Olympics on China have made three specific claims, none of which holds water. First, Chinese officials themselves said the games would bring human-rights improvements. The opposite is true. China's people are far freer now than they were 30, 20 or even 10 years ago. The party has extricated itself from big parts of their lives, and relative wealth has broadened horizons. But that is not thanks to the Olympics, which have brought more repression. To build state-of-the-art facilities for the games, untold numbers of people were forced to move. Anxious to prevent protests that might steal headlines from the glories of Chinese modernist architecture or athletic prowess, the authorities have hounded dissidents with more than usual vigour. And there are anyway clear limits to the march of freedom in China; although personal and economic freedoms have multiplied, political freedoms have been disappointingly constrained since Hu Jintao became president in 2003.

Second, these would be the first "green" Olympics, spurring a badly needed effort to clean up Beijing and other Olympic venues. This was always a ludicrous claim. Heroic efforts to remove toxic algae blooms from the rowing course do not amount to a new environmentalism. The jury is still out on whether Beijing will manage to produce air sufficiently breathable for runners safely to complete a marathon. If it does, it will not have been because of any Olympic-related change of course. Rather it will be the result of desperate measures introduced in recent weeks: production cuts by polluting industries, or simply closing them down; and the banning from the road of half of Beijing's cars.

The third boast was not one you would ever hear from the lips of Chinese diplomats. A belief in the inviolability of Chinese sovereignty is often not just their cardinal principle, but their only one. Yet some foreigners claimed that the Olympics would make Chinese foreign policy more biddable. Western officials have been quick to talk up China's alleged helpfulness: in persuading North Korea at least to talk about disarming; in cajoling the generals running Myanmar into letting in the odd envoy from the United Nations; in trying to coax the government of Sudan away from a policy of genocide. But last month China still vetoed United Nations sanctions against Zimbabwe; it wants a UN vote to stop action in the International Criminal Court against Sudan's president, Omar al-Bashir.

Beijingoism

China's leaders remain irrevocably wedded to the principle of "non-interference" in a country's internal affairs. In so far as China itself is concerned, they seem to have the backing of large numbers of their own people. The Olympics are taking place against the backdrop of the rise of a virulently assertive strain of Chinese nationalism—seen most vividly in the fury at foreign coverage of the riots in Tibet, and at the protests that greeted the Olympic-torch relay in some Western cities.

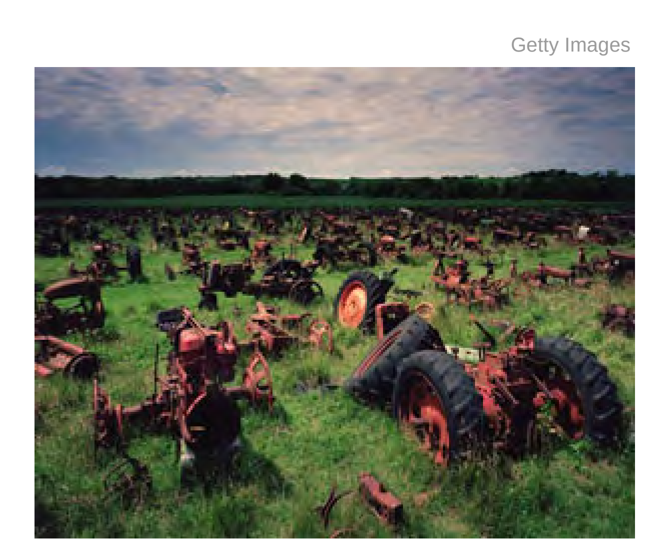
And all that was before the games themselves begin. Orwell described international sport as "mimic warfare". That is of course infinitely preferable to the real thing, and there is nothing wrong in China's people taking pride in either a diplomatic triumph, if that is how the games turn out, or a sporting one (a better bet). But there is a danger. Having dumped its ideology, the Communist Party now stakes its survival and legitimacy on tight political control, economic advance and nationalist pride. The problem with nationalism is that it thrives on competition—and all too often needs an enemy.

So near and yet so far

Jul 31st 2008
From The Economist print edition

Trade ministers have come too close to a deal to let the Doha round die

Getty Images



IN MANY examinations, 90% is an excellent score, deserving a prize and a handshake from the headmaster. In Geneva this week, only full marks would do, and the world's trade ministers failed. No matter that they came closer to a deal than anyone should have expected (see article). No matter that they stuck at it for nine days and several nights, in the longest ministerial meeting in the history of the World Trade Organisation (WTO). No matter, too, that this time they parted in stunned disbelief, heads shaking, rather than in acrimony, recrimination and spite, as at Cancún in 2003. They managed "convergence" on 18 of the 20 topics set before them by Pascal Lamy, the WTO's director-general, but they stumbled on the 19th, a device for protecting farmers in developing countries against surges in imports. They never reached the 20th, cotton. Failed.

You can construct a plausible argument that the collapse of yet another set of talks on the Doha round, which is now coming up to seven years old, is of little importance. While the world's trade ministers have alternated between talking and not talking to one another about Doha, the world's businesspeople have carried on regardless: the growth of global commerce has outstripped the hitherto healthy pace of global GDP. Developing countries in particular have continued to open up to imports and foreign investment. You might say that not much was on offer in Geneva anyway: one study put the eventual benefits at maybe $70 billion, a drop in the ocean of the world's GDP. Global stockmarkets, with so much else on their minds, either didn't notice or didn't care. On July 29th, the day the talks broke up, the S&P 500 index rose by 2.3%.

Plausible, but wrong. For a start, the lowish estimates of the economic benefits of the round miss out two things. One is the value of the unpredictable dynamic benefits of more open markets. Access to more customers allows exporters to exploit economies of scale. Competition encourages not only specialisation, the classic result of more open trade, but also increased productivity. The other is what you might call the "option value" of the Doha round. The WTO inhabits a sort of parallel universe in which countries negotiate not on what tariffs and subsidies will actually be, but on maximum (or "bound") rates and amounts. Although many countries have cut tariffs and farm subsidies—if only, in the latter case, because of rising food prices—too few have turned these cuts into commitments. Tighter binding would cramp their ability to turn back to protection. It would have made up the bulk of a Doha deal.

Do you care about the beans or the beings?

Also on offer were benefits that are easier to visualise. Some cuts in bound tariffs would have bitten into actual rates. There would have been much less “tariff escalation”—a nasty practice, by which higher tariffs are levied on successive stages of production. Raw coffee beans may be tariff-free, but roasted beans incur a higher levy, and so on as they are ground, decaffeinated and so forth. Move up the value chain, and you pay. Some developing countries—in Latin America, especially Brazil, and in Africa too—are seething that a deal slipped away.

Given all this, the inability of ministers to agree, having come so close, seems unfathomable. Belief is all the more beggared when you look at the wider world. The global economy is slowing, possibly horribly: under such conditions, protectionism thrives. It would be silly to say that the sky is about to fall in: too much has been agreed in the past, and too many countries and businesses value an open trading system, to suppose that the 2010s will be a rerun of the 1930s. But trade has too few friends these days—notably in America’s Congress and the Elysée Palace. Ministers picked a poor time to fail.

The ultimate cause of failure only deepens the sense of puzzlement. When talks started, the likeliest deal-breaker seemed to be the ceiling on American farm subsidies, which is far higher than America actually spends. In the end, the deal fell over protection not for America’s farmers but for those of the developing world: a “special safeguard mechanism”, to kick in when imports surged. America wanted the trigger set high; India, joined by China, wanted it low. Both developing countries, it is said, also wanted to be able to jack tariffs up above existing ceilings, not merely those set in a Doha deal. After 60 hours of talk by Mr Lamy’s count, there was deadlock; and that was that. Meanwhile, believe it or not, food is pricier than ever.

India’s mountain, America’s molehill

You could call this “a collective failure”, as some ministers did. You could also be more specific. India’s willingness to open its economy in reality is in lamentable contrast to its inability to commit itself at the WTO. Its stubbornness is explained by the ferocity of India’s politics on this subject and the desperate, even suicidal, poverty of many of its farmers. But it and China must have known that they were asking too much.

America has some answering to do, too. It seems to have misread the big story: in the WTO, rich countries no longer call the shots, as they did in its predecessor, the General Agreement on Tariffs and Trade. China and India, infuriating though they may be, are as powerful as America and the EU. The United States also fumbled with the details. It might have tied up a deal on cotton, and left the Chinese and Indians isolated on safeguards. And the ultimate stumbling-block, though a mountain to India, was surely a molehill to a country of America’s wealth. America has 1m farmers, India over 200m.

In the WTO, there is a saying: nothing is agreed until everything is agreed. But all the effort of nine days—or seven years—should not be lost. Mr Lamy should publish what has been agreed so far. Ideally, the ministers would then meditate over the summer on what they have lost—and he could then ask for a final push. That, alas, seems a vain hope. With American elections looming, India heading for the polls by next May and a new European Commission due late next year, it may be 2010 before much can be done. There is a risk that by then, as Peter Mandelson, the EU’s trade commissioner, once put it, “the caravans [will] have moved on in different directions”. The world will have to wait for a Doha deal, if it ever gets one. After coming so close, it should not have had to.

Housing bill

A hair of the dog

Jul 31st 2008
From The Economist print edition

Congress has been too lenient on Fannie Mae and Freddie Mac

Illustration by David Simonds



IT IS hard to deal with an alcoholic. But most experts would agree that the answer is not to leave your credit card behind the bar, persuade the pub landlord to stay open till dawn and leave the inebriate to get on with it. Sadly that is how the American Congress, in its new housing bill, is treating those troubled mortgage groups, Fannie Mae and Freddie Mac.

A rescue of the pair was inevitable. With some $5.2 trillion of debt owned or guaranteed by the duo, their collapse could have ushered in financial catastrophe. Nor could the government close Fannie and Freddie to new business and wind down their old operations. Without them, the mortgage market in America would shut.

But imagine that Fannie and Freddie had turned for financial support to Hank Paulson not as treasury secretary but in his old incarnation as head of Goldman Sachs. Goldman would have insisted that the companies paid a high price: shareholders would probably have been wiped out. Just look at the deal that Lone Star, a private-equity firm, has struck with Merrill Lynch to buy the latter's dodgy mortgage-related assets: not only is Lone Star paying a mere 22 cents on the dollar, Merrill is lending it most of the purchase money. By comparison, the federal government's negotiating skills look more like those of Donald Duck than of Donald Trump.

The housing bill imposes no changes in management or approach on Fannie and Freddie and no penalties on shareholders. The American taxpayer is instead given two flimsy protections. The first is that the treasury secretary will have the right to dictate terms if the government does have to stump up equity capital. In the past Mr Paulson could generally be trusted to do the right thing, but he will be gone in six months.

The second protection is the creation of a new regulator. But the existing regulator has been hamstrung by Congress, thanks to the immense lobbying clout of Fannie and Freddie. Shamefully, a proposal to eliminate their lobbying budgets was not even put to a vote on the Senate floor. Government departments are not allowed to lobby Congress; why are these two firms, whose debts now have an explicit government guarantee, permitted to do so?

Heads they win

If Fannie and Freddie are too important to be allowed to collapse, and the American government is really

responsible for their debts, then they should be nationalised. The current arrangement allows managers and shareholders to take all the profits and leave the losses to the taxpayer.

If they were nationalised, Fannie and Freddie could be returned to the private sector when the housing market recovers. Privatisation should then create a much wider range of competing entities. It is not entirely clear why the core business of the enterprises—providing guarantees for mainstream (not subprime) mortgages—needs government sponsorship.

The bill does have some prudent parts. The plan to alleviate home foreclosures via a government guarantee both penalises the lenders (they must accept a loss of 10-20%) and gives the government a share of the upside if prices recover. But these provisions are voluntary and it seems unlikely that many lenders will go for them; an earlier scheme, requiring a write-down of only 3% for the banks, had few takers.

The whole package is an attempt to throw government cash at a market that is already heavily distorted by tax breaks and subsidies. And it comes at a time when house sales, if not prices, look at last to be bottoming. Nationalisation, followed by speedy, full privatisation would have been so much better. Are there are any free-market capitalists left in Congress?




Turkey's constitutional court

Saved by a (judicial) whisker

Jul 31st 2008
From The Economist print edition

Its judges have averted disaster and shown that Turkey can be a worthy candidate for the European Union

AP



IN THE end it was a judicious compromise on the part of Turkey's constitutional court. Had the judges accepted the chief prosecutor's request for a ban on the ruling Justice and Development (AK) Party and the expulsion from office of both the president, Abdullah Gul, and the prime minister, Recep Tayyip Erdogan, for five years, they would have provoked the mother of all political crises: it might well have destroyed democracy in Turkey. By stopping short but cutting off some public money, the judges have instead sent a signal to Mr Erdogan and yet avoided a huge confrontation.

It was a nail-biting finish, with a narrow majority of judges actually favouring a ban (see article). But they seem to have been swayed by two things. The first was the threadbare evidence from the prosecution. Earlier this year the same court overturned an AK law aimed at relaxing the ban on the Islamic-style headscarf in state universities. But apart from that law, the evidence the prosecutor produced to show that the AK was seeking to undermine Ataturk's secular republic and bring in *sharia* law was pretty thin, not least because Mr Erdogan (pictured) and Mr Gul stoutly and insistently denied that they had any such intentions.

The second thing that might have influenced the judges was the consensus of opinion, both at home and internationally, against a ban on such a popular party. The court has banned plenty of parties and politicians in the past. But it has never done so in the case of a party that won as much as 47% of the vote at its most recent election; nor has it turfed out political leaders with such strong backing from the Americans and the European Union. Courts should not be swayed by politics, but this particular prosecution was political from the start. It is therefore a good sign that the court, often seen as a stern bastion of Turkey's secular fundamentalists, has now shown itself to be sensitive to outside opinion in this way.

What next? It would be highly desirable if Turkey's secular establishment, including the generals, would now reconcile themselves to the AK Party. Mr Erdogan's outfit is indeed mildly Islamist, and far from perfect. It has made excessive use of patronage and been insensitive to the fears of Turkey's secularists. But it has governed ably and shown every sign of abiding by the rules of democracy. In the absence of any credible opposition, it is likely to stay in government for several years yet.

Mr Erdogan too could make a gesture of compromise after the court ruling. He should drop plans for any more laws that might smack of attacks on Turkey's secular traditions. And he should start serious bipartisan talks with the opposition and other interested parties on revising and updating Turkey's present authoritarian constitution, which was largely written after the army coup of 1980.

Mr Erdogan's government should also turn more of its attention to the economy. The AKP's record on the economy is strong, but that has been due in part to a benign world economic situation. Times are more difficult now, and Turkey, with a gaping current-account deficit and rising inflation, is again looking vulnerable. More liberalisation would help to keep the economy on an even keel.

A worthy candidate, after all

The West, and above all the EU, could also offer more support. It was right for the union to have sent a clear message that it would not meekly have accepted a ban on the AK Party and on Mr Erdogan. Now that the court has held back from that step, the EU ought to offer Turkey a more positive kind of encouragement. That means picking up the flagging momentum of talks on Turkish accession. It is obvious that any date for actual membership is a decade or more away. But by demonstrating that it can resolve an internal political crisis while preserving democracy, Turkey has also shown why it is a rightful candidate for membership, one day, of the European club.

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OPINION LEADERS

Gene doping

Fairly safe

Jul 31st 2008
From The Economist print edition

What athletes may or may not do ought to be decided on grounds of safety, not fairness

Illustration by Ian Whadock



ANOTHER Olympics, another doping debate. And this time it is a fervent one, as recent advances in medical science have had the side-effect of providing athletes with new ways of enhancing performance, and thus of putting an even greater strain on people's ethical sensibilities.

This is especially true of gene therapy. Replacing defective genes holds out great promise for people suffering from diseases such as muscular dystrophy and cancer. But administered to sprightly sportsmen, the treatment may allow them to heave greater weights, swim faster and jump farther (see article). And that would be cheating, wouldn't it?

Two notions are advanced against doping in sport: safety and fairness. The first makes sense, the second less so—particularly when it comes to gene therapy. For instance, some people have innate genetic mutations which give them exactly the same sort of edge. Eero Mantyranta, a Finn, was a double Olympic champion in cross-country skiing. His body has a mutation that causes it to produce far more of a hormone called EPO than a normal person would. This hormone stimulates the production of red blood cells. A synthetic version of it is the (banned) drug of choice for endurance athletes.

Mr Mantyranta was allowed to compete because his advantage was held to be a "natural" gift. Yet the question of what is natural is no less vexed than that of what is fair. What is natural about electric muscle stimulation? Or nibbling on nutrients that have been cooked up by chemists? Or sprinting in special shoes made of springy carbon fibre? Statistically speaking, today's athletes are unlikely to be any more naturally gifted than their forebears, but records continue to fall. Nature is clearly getting a boost from somewhere.

Given that so much unnatural tampering takes place, the onus is surely on those who want to ban doping (genetic or otherwise) to prove that it is unusually unfair. Some point out, for instance, that it would help big, rich countries that have better access to the technology. But that already happens: just compare the training facilities available to the minuscule Solomon Islands squad alongside those of mighty Team America. In druggy sports it may narrow the gap. One condition of greater freedom would be to enforce transparency: athletes should disclose all the pills they take, just as they register the other forms of equipment they use, so that others can catch up.

The gene genie is already out of the bottle

From this perspective, the sole concern when it comes to enhancing athletic performance should be: is it safe for the athletes? Safety is easier to measure than fairness: doctors and scientists adjudicate on such matters all the time. If gene doping proves dangerous, it can be banned. But even then, care should be exercised before a judgment is reached.

Many athletes seem perfectly willing to bear the risks of long-term effects on their health as a result of their vocations. Aged Muhammad Ali’s trembling hands, for example, are a direct result of a condition tellingly named *dementia pugilistica*. Sport has always been about sacrifice and commitment. People do not admire Mr Mantyranta because he had the luck of the genetic draw. They admire him for what he achieved with his luck. Why should others be denied the chance to remedy that deficiency?

On Barack Obama, justice, opera, Europe, Sri Lanka, ancient Greece

Jul 31st 2008
From The Economist print edition

Judging the balance

SIR – Lexington thinks that conservative complaints about a "liberal bias" in the media are "perfectly justified" in relation to the disproportionate coverage given to Barack Obama during his trip abroad and, presumably, in the forthcoming general election (July 26th). Yet in the very same issue of your newspaper you gave much more coverage to Mr Obama than John McCain in your round-up of the week's news (The world this week), in a leader on Iran ("More U-turns, please") and in an article on America's economy ("It's the economy again, stupid").

Is *The Economist* therefore properly considered a constituent of the "liberal media"? Or could it actually be that market forces are at work? Perhaps Mr Obama is just a better story: a more interesting, historic, charismatic and, therefore, sellable media product, irrespective of any particular political persuasion.

Matthew Passmore
San Francisco

SIR – It is not true that Mr Obama "has not…studied international relations". It was the subject of his major at Columbia University.

Niklas Mattsson
New York

SIR – The myth persists that Mr Obama has committed his putative presidency to a firm deadline for troop withdrawals from Iraq, and that this will result in a more or less complete military disengagement in 16 months or so. Not so.

Cutting through the obliquity, which is formidable, his ever-changing "deadline" will be adjusted if realities on the ground so dictate. Even then, it is limited to a withdrawal of combat brigades, leaving behind a large contingent of training units, logistical units, as well as "some" security units. In short a military presence of many thousands for possibly years to come.

Mr Obama has also implied that he will not abandon the Iraqi government until it is stable and capable of protecting its territory. This continuously evolving plan has morphed into something very close to Mr McCain's definition of "victory", which is achievable thanks to the very surge that Mr Obama opposed. Plus ça change.

Ronald Holdaway
Brigadier-general, United States army (ret.)
Draper, Utah

Peace and justice

SIR – Your leader on the decision by the International Criminal Court to charge the president of Sudan with genocide in Darfur oversimplified the logic of the debate between wanting "an end to suffering and for justice to be done" ("Justice or expediency in Sudan?", July 19th). For example, it could be argued that the indictments of Radovan Karadzic and Ratko Mladic at the Yugoslav tribunal in The Hague contributed to the peace process in Bosnia and Kosovo by reducing Slobodan Milosevic's leverage in the Dayton accords and in the run-up to negotiations at Kumanovo.

In Sierra Leone, the peace process succeeded only after the strategy of "locking" warlords into power-sharing deals was abandoned in favour of pursuing their prosecution at a special court in Freetown, which

was backed by British military force.

Sudan presents a real dilemma (and the threat of force is a factor in resolving it). But power-sharing deals, while expedient, can create incentives among warlords, their political patrons and profiteers to sustain lawlessness. Justice itself can facilitate peace.

Iavor Rangelov
London

Operatic note

SIR – You suggested that because the original plans for the Teatro Colón opera house in Buenos Aires were lost "nobody knows precisely why music sounded so good there" ("Opera buffa", July 12th). The original plans had probably no specific acoustical insight (they date from less than ten years after the inauguration of Symphony Hall in Boston, the first auditorium built using principles of modern acoustics). More recent acoustical measurements and architectural drawings of the Colón do exist and are consistent with our understanding of what makes good acoustics for opera. Although the relationship between architecture, sound and perception in auditoriums is not yet fully understood, antique construction plans are an unlikely source of the missing information.

Jason Summers
Washington, DC

European frontiers

SIR – You folks come up with some pretty wacko ideas. You often write (and complain) about the problems of the European Union and its enlargement. Yet now you are proposing that the EU should expand to include the southern Mediterranean countries ("Club Med", July 12th). First off, it is the "European" Union: southern Med countries are not European. I don't get why Turkey is included (there's a reason it used to be called Asia Minor). And second, it is not logical for enlargement to continue without any end in sight. Following your train of thought we may as well envelop the whole world into the EU and have one grand party.

Achal Prakash
Atlanta

Politics in Sri Lanka

SIR – I would like to set the record straight on some of the facts in your recent article on Sri Lanka ("The war president", July 5th). It is not true that the new chief minister of the Eastern Province is "the highest-ranking office held by a Tamil". In fact, there are three cabinet ministers in the central government from the Tamil community, all of whom were elected. You were wrong, too, in claiming that a British diplomat was "clubbed" by thugs: it was actually a Sri Lankan national working for the British high commission who was allegedly involved.

As for the comment that the president, Mahinda Rajapakse, does not belong to the traditional "English-speaking elite", two of his predecessors, Ranasinghe Premadasa and Dingiri Banda Wijetunga, fit better into this category. You did not even acknowledge that Mr Rajapakse is Sri Lanka's elected head of state and enjoys wide public support.

Moreover, I thought you were unnecessarily cynical about the election of a breakaway faction of the Tigers in the Eastern Province. By describing them as "born-again democrats" you missed the significance of the faction's involvement in the democratic process; it has renounced its armed campaign and registered as a political party.

Nihal Jayasinghe
High commissioner of Sri Lanka
London

Meet the Spartans

SIR – It is obvious to this high school teacher that you need to brush up on your Thucydides ("Bats about the Attic", June 28th). How else could you call the products of classical Athens "glories" and those of Sparta "horrors"? Quite the contrary. Sparta was the only polis in the ancient world in which women were encouraged to exercise, permitted to own personal property, and encouraged not to bear children until their late teens.

Athens, at the height of its democracy, went to war more than any other polis in Greece. Thucydides gave warning that, in a thousand years' time, people would look at the ruins of Athens and think it twice the city it was and view the ruins of Sparta and think it half the city it was. Which is all the more reason why people should study Greek.

Molly Connors
Bethesda, Maryland



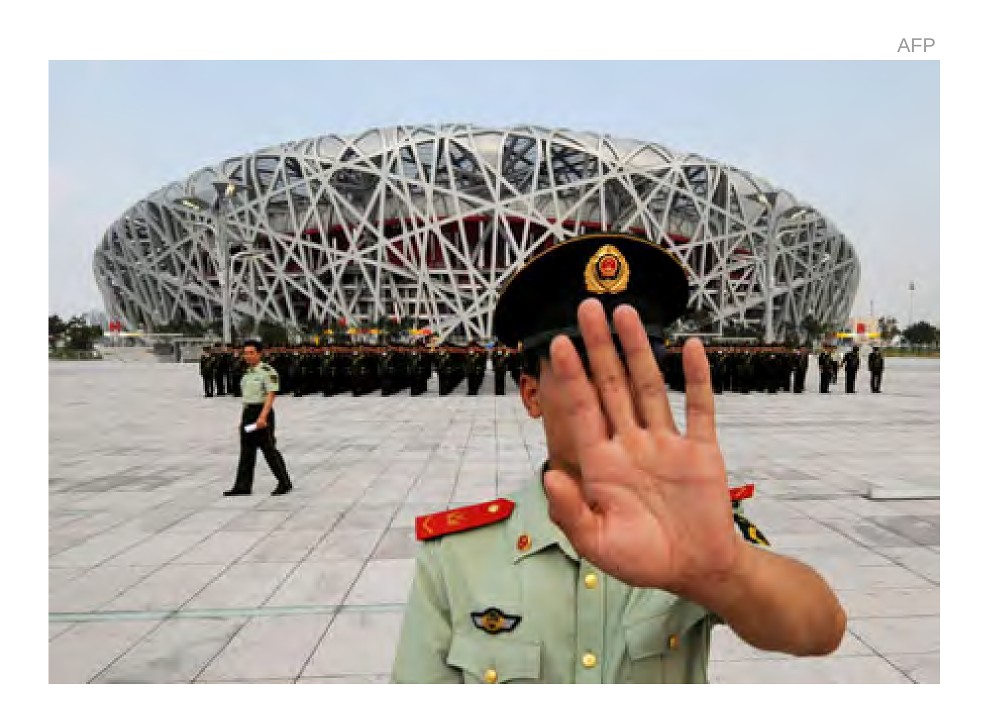
WORLD
ASIA

China before the Olympics

Welcome to a (rather dour) party

Jul 31st 2008 | BEIJING
From The Economist print edition

AFP



China is keen to show its best face at the games and that face is indeed a lot better than it once was. But do not expect any dramatic slide from authoritarianism

TENS of billions of dollars have been spent, lavish sport venues erected and the world's biggest airport terminal built. Hundreds of thousands of police, soldiers and civilian security volunteers have been mobilised. Beijing is braced for the Olympic games and the country's leaders for a huge political challenge. For them the event is about how an emerging great power will be judged by a sceptical world.

In a country still struggling to cope with the needs of millions of homeless and bereaved citizens in the aftermath of May's deadly earthquake, and where recent outbreaks of unrest have roiled many towns, the leadership has declared that putting on a good games is its "number one priority". Communist Party and government officials at every level know that their careers are at risk if anything occurs on their watch that disrupts the Olympics.

The government-organised vigilantes in their baseball caps and "Good luck Beijing" T-shirts patrolling the streets in search of potential troublemakers might look like a throwback to a China of the distant past: an era when no one was safe from the prying eyes of neighbourhood spies. But few people seem to resent their presence, or even the party's relentlessly upbeat rhetoric about an event that has disrupted, sometimes massively, the lives of hundreds of thousands. Most Beijing citizens still seem proud and delighted that their country is staging the Olympics.

The party has tapped into a nationalist wellspring fed by history textbooks and popular culture that portray early 20th-century China as a country derided by foreigners as the "sick man of Asia". The man regarded as the spiritual founder of China's Olympic movement, a pre-communist educator called Zhang Boling, is quoted as saying that "a great nation must first strengthen the race, a great race must first strengthen the body." Officials try to play down China's medal prospects at the games, but the goal is clearly to win more than America and erase any last trace of the sick-man label.

This nationalism is both an asset to the party (it helps to bolster its sense of legitimacy) and a complication in its efforts to convince the world that China's rise poses no threat to Western interests. One Chinese official says privately that he had worried about a "clash of civilisations" emerging between China and the West in the wake of the unrest in Tibet last March. Few would begrudge China some self-

congratulation as it rakes in the medals. But with memories still fresh of the virulent outburst of anti-Western fervour, and with protests (sometimes unruly) by ethnic Chinese around the world at the West's "bias" against China, nationalism will be under anxious scrutiny at the games.

China's leaders would instead prefer outsiders to focus on how much the country has changed and how much it is at ease in the world. The official slogan of the games, "One world, one dream", reflects this (albeit with an unintended hint of Maoist ideological conformity). But here too it has problems. The protests staged in Western cities in April against the Olympic torch relay raised the nightmare in the minds of China's leaders of similar action at the games. To keep potential demonstrators out it has tightened visa restrictions, ignoring the complaints of foreigners whose business in China has been disrupted.

Without citing any evidence, Chinese officials say that these games have become more of a target for terrorists than any others in Olympic history. Western diplomats are not so sure. The presence of so many foreign dignitaries, including George Bush and Russia's prime minister, Vladimir Putin, at the opening ceremony—and others, among them Britain's Gordon Brown, at the finale—presents an obvious security risk. But there are widespread suspicions that China is over-egging the threat in order to justify blanket security and prevent the Dalai Lama's supporters (and other dissidents) from taking to the streets. Tibetans who try to check into hotels can expect unusual security attention.

Protest-free games?

Well before the Tibetan unrest signs had appeared that China was tightening the screws on dissent in order to keep the games protest-free. In 2001 a senior Beijing official pledged that hosting the games would "benefit the further development of our human-rights cause". Officials from the International Olympic Committee made similar predictions. But Amnesty International, a human-rights group, said in a report published this week that there had been a "continued deterioration" in China's human-rights record.

Amnesty's report lists numerous repressive measures adopted by China to ensure an orderly games: arresting dissidents, detaining people who try to present their local grievances to the central authorities in Beijing (a tradition that is officially sanctioned, but which often results in retaliation by local officials), and making more liberal use of a handy method of punishment, known as "re-education through labour", which involves sending people to prison camps without trial.

Among those detained is Huang Qi, an online activist based in Chengdu, a city near the earthquake zone. Mr Huang had been a prolific publisher of human-rights news on the internet; recently he had been trying to help parents of children killed in the earthquake in shoddily built schools. He has been accused of acquiring state secrets, a charge that often heralds a jail term. Last year the police arrested an activist in Beijing, Hu Jia, who had told a European Union parliamentary hearing that China had not lived up to its Olympic promises on human rights. He was jailed for 3½ years for "inciting subversion".

AFP



The government worries about the sort of accusations made by Amnesty, even as it rejects them. On July 23rd it declared that three public parks in Beijing could be used for protests during the games (normally no demonstrations, except very occasionally anti-Japanese or anti-Western ones, are tolerated). But permits will still be necessary. It is safe to say that critics of Chinese policies on Tibet, Darfur, Xinjiang (where Muslim Uighurs are chafing at Chinese rule) or the outlawed Buddhist sect, Falun Gong, will not be getting them. Moreover, the parks are far from any Olympic venue. One of them contains a replica of the White House in Washington, a setting that China may have fewer qualms about seeing as a backdrop for protests.

Many Chinese, however, are neither surprised nor particularly disappointed that the Olympics will not offer a greater chance to speak out. Some determined activists such as Huang Qi and Hu Jia may be resentful, but many Chinese intellectuals would argue that over the past seven years since China was awarded the games their ability to speak out on sensitive topics has continued to grow. Although a few are jailed, many others whose words might have landed them behind bars in the

1980s or 1990s are still at large. Most ordinary urban Chinese would say that their lives have improved since the beginning of the decade, helped not so much by any change in party policy but by a booming economy.

Doing really rather well, thank you

Andrew Nathan of Columbia University in New York, who is co-editor of a forthcoming book on how Asians view democracy, says that of the eight countries and regions surveyed, public satisfaction with the regime was highest in authoritarian China. The other places studied were five new democracies (South Korea, Taiwan, the Philippines, Thailand and Mongolia), a non-democracy (Hong Kong), plus democratic Japan where satisfaction was lowest. The authors are not optimistic that China is on the brink of democratic change. It is, they say, “poised to join the list of developed countries with large middle classes and non-democratic regimes”.

This might be a disappointment to optimists who had hoped that the huge international attention focused on China as the games approached would help to change its authoritarian politics for the better. When Beijing was chosen to host the games, many wondered whether the 2008 Olympics might play a political role similar to that of the Seoul Olympics in 1988 and Mexico City’s 20 years earlier. In both those cases the games emboldened pro-democracy activists (although they did not restrain the Mexican authorities from shooting many dozens of them). The Beijing games have not had anything like such a galvanising effect—except in Tibet.

Enter the internet

Economic and social change over the past few years has a lot do with this. In 2001 China had recently all but completed a sweeping privatisation of urban housing. The impact of this was enormous. It stimulated demand for consumer goods and better housing and gave swathes of urban China a big economic stake in the preservation of the party-dominated status quo since anti-party unrest might jeopardise valuable new assets.

It also, crucially, nurtured the development of a non-party-controlled civil society of landlord associations, independent lawyers and environmental groups who pushed for the protection of property from the party’s arbitrariness or the value-destroying impact of pollution. These developments have been helped by the rapid penetration of information technology. China’s official internet-monitoring body announced this week that China had passed America to become home to the biggest population of internet users.

The internet’s spread has created an opportunity for vigorous public debate that hardly existed a decade ago. The authorities try to block sensitive discussions, using keyword filters and an army of “net nannies” employed by portals and internet service providers. But the impact of these efforts is limited, with savvy users quickly finding ways of circumventing government blocks. One clever technique has been to use online software to render Chinese-language script vertically instead of horizontally. This has baffled the keyword detectors, for now at least.

AFP



The torrent of information now accessible online (even if Amnesty’s own report is blocked in China) and the ability to discuss it give many young urban Chinese a sense of freedom that their parents could only dream of at that age. It is these young Chinese who lashed out most vociferously against the West earlier this year. Among their bitterest complaints was that some Westerners viewed them as brainwashed, an accusation that they hotly denied.

If there has been some positive impact from the Olympics themselves on political change in China, it has been in roundabout ways. Chinese troops in Lhasa preferred to let Tibetan rioters rampage for two days rather than move in to stop them, fearing that large-scale bloodshed would lead to boycotts of the games. The scale of the rioting that ensued in the security vacuum had what were probably unintended consequences: sympathy protests across the Tibetan plateau, an outcry from the West and the outpouring of nationalist sentiment across China.

It may well have been an effort to curb this outpouring and create a more positive atmosphere for the games that shaped the government’s response to the earthquake in May. A commentary on the government’s website called the disaster, which killed some 70,000 people, “a good opportunity” to improve China’s image ahead of the Olympics. Foreign

and Chinese journalists (both normally kept on short leashes by the authorities during natural disasters) were allowed to pour in.

This unprecedented access stimulated a lively debate in China, in the traditional media as well as online, about the need for a freer press and a better flow of information from the government. Some of this advice appears to have been taken up. Very unusually, the official media have been quick to report the recent riots that have broken out in different parts of the country. The central authorities, which are normally especially secretive about such things before a big event, have tolerated—if not actively encouraged—such publicity.

Local thuggery

Another big change in China in recent years, however, has been the central government's diminishing grip on the actions of local officials. China, as its defenders at home are quick to point out, is no longer totalitarian. It is a mix of jostling bureaucratic and economic interests which push officials sometimes towards thuggery and sometimes towards greater tolerance. The central government may be guilty of turning a blind eye, but some of the human-rights abuses that Amnesty describes are perpetrated by local governments at their own whim.

The government's response to two of the recent riots illustrates this. On June 28th thousands of people rampaged through the town of Weng'an in the southern province of Guizhou, setting fire to a police station and burning several police cars. The violence was triggered by what many of Weng'an's citizens believed was an official cover-up of a girl's murder by a group of boys rumoured to be related to local officials. The police said the girl had committed suicide.

The town's authorities tried to cover up the news, but people began posting accounts online. Internet censors tried to delete these as quickly as they appeared (the portals and service providers that do the censoring often prefer to err on the side of caution rather than risk losing their business by upsetting the authorities). But the news got through and the local government—bludgeoned in this case successfully by higher-level officials—lifted coverage restrictions. Chinese and foreign journalists flocked there.

Reports in the state-controlled media expressed unusual sympathy with the protesters' grievances. Weng'an's police stuck to their story about the suicide, but provincial leaders sent a clear signal that they too believed that the citizens had a point. They promptly dismissed the town's government, party and police chiefs, accusing them of a long-term pattern of brutish behaviour and insensitive handling of people's complaints.

Three weeks later another riot erupted, this time in the neighbouring province of Yunnan. Hundreds of people rioted in Menga, a village on the border with Myanmar, in a dispute between rubber farmers and the management of the factory to which they sold their produce. A villager was shot by police. When his son went to help him, he too was shot. Both men died.

Again the media responded quickly, but this time a nervous local government kept a grip on the news. Journalists were stopped at a police checkpoint several kilometres from the scene of the shooting. Provincial-level propaganda officials said they were unable to persuade the local authorities to co-operate. A foreign ministry official in Beijing (perhaps disingenuously) said that in emergencies local governments could override regulations introduced last year for foreign journalists that were billed at the time as allowing freedom to travel anywhere, except Tibet, during the Olympic period.

But even as security is being tightened around Beijing for the games, lively debate continues in the Chinese media about lessons that might be drawn from these riots. No one is openly calling for multi-party politics, at least not in the press. But more media freedom, less government secrecy and greater efforts to consult the public are being commonly demanded. Referring to the party's insistence that "positive propaganda" prevail in the press, the *Beijing News* said that the only thing that could be called "negative news" would be a lack of timely access to information. Even the normally stodgy Xinhua News Agency has weighed in.

The government has made a cursory effort to make the internet more accessible during the games. Blocks have been lifted on a few banned websites: Wikipedia (an online encyclopedia), BBC News and *Playboy*, a site that offers pictures of naked women. But the Chinese-language sites of Wikipedia and the BBC remained barred.

If there is any hope in the near future for an acceleration of political change, the period after the games will be one to watch. Leaders and officials at every level will begin to relax after months if not years of preoccupation with this event. Olympic security restrictions will be removed. Dissidents will stick their heads up again. Debates spawned by China's recent crises are likely to become less fettered.

Big questions will be asked in the build-up to the 30th anniversary in December of the party meeting that launched the country's policy of "opening and reform". Some liberal intellectuals have been saying that China is more than ready for the next stage of reform, namely that of its politics. The 20th anniversary next year of the Tiananmen Square protests will keep this issue simmering.

Stresses in the leadership, covered up for the sake of Olympic unity, may also become more apparent in the months ahead. In October there will be a meeting of the party's central committee, the first since February, at which there is likely to be a lot of soul-searching. A sharp focus will be on the economy. With inflation persisting, the stockmarket in the doldrums and the pace of economic growth beginning to slow, there will be bickering over this issue too.

And when the party's over?

After the Olympic party (a dour one if security officials do not relax), many in China are likely to wonder whether it was really all worth it. Wang Yang, a member of the ruling Politburo and one of the more outspoken leaders (a rare breed), has called for tolerance of public grievances. Attempting to suppress people's views might create an "opinion quake lake", he said recently, referring to the perilously unstable lakes that were formed by landslides during the Sichuan earthquake. China's leaders would do well to take heed.

The swing states: Ohio

The big, bellwether battlefield

Jul 31st 2008 | COLUMBUS
From The Economist print edition

Over the coming weeks we will look at the states that could decide this year's election. We start with Ohio, decisive in 2004

AP



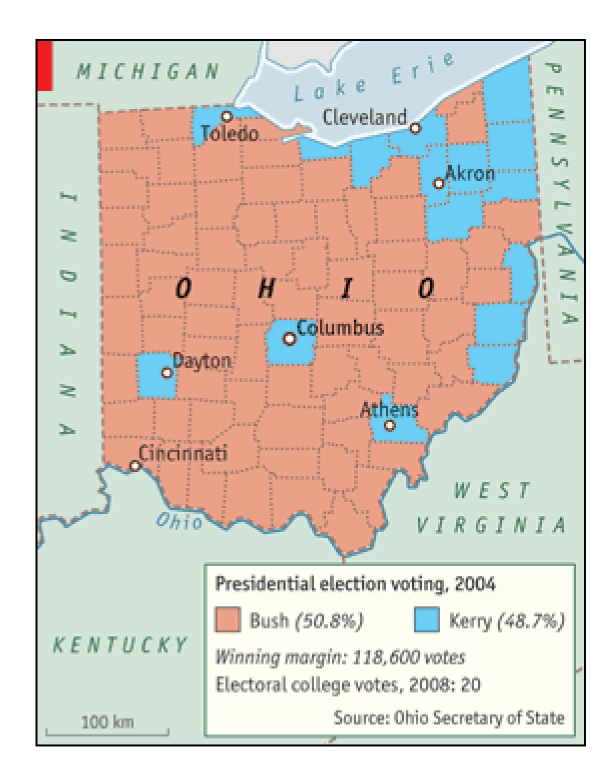
BARACK OBAMA is doing everything he can to make it look as if the election is a mere formality, and adoring media types are keen to play along. Yet the latest *USA Today*-Gallup poll puts John McCain four points ahead, while the RealClearPolitics average of polls gives Mr Obama a meagre two-and-a-half-point lead. Optimistic Republicans recall that Michael Dukakis was 17 points ahead of George Bush senior in the summer of 1988, and still lost. So there is plenty of evidence to suggest that this election, like the previous two, could boil down to a tight race settled by close results in a handful of "swing" states.

Ohio is the quintessential battleground state. Bill Clinton won it by some of the narrowest of his margins for any big state—just two points in 1992 and six in 1996. In 2004 George Bush won Ohio, with its precious 20 of the 270 electoral college votes needed to secure the presidency, by a mere 118,600 votes. Had 60,000 Ohioans gone the other way, John Kerry would have been president.

Ohio is also a bellwether. It has voted for the winning candidate in all 11 presidential elections since 1960. In doing so, it has deviated from the national vote shares by only a couple of points. In 2004 it matched the national average exactly.

The reason is that it is such a microcosm of America. Ohio is a surprisingly diverse state—with everything from big cities to rolling fields, rustbelt industries to Appalachian poverty. In the Cup-o-Jo Cafe in Columbus, the state capital, 20-somethings sit around eating vegetarian food and talking about how much Mr Obama inspires them to hope for a better world. Out in the rural areas the signs on the road tell a different story—"Hell is real," reads one, and then, a few miles later, "Repent!".

Above all, Ohio reeks of "normality". Not exactly in the statistical sense. Ohio's median household income is 8% below the national average. Only 2% of the population is Hispanic. Median house prices are 23% below the national average. But it is average in a deeper psychological sense. Jason Mauk, the executive director of the Ohio Republican Party, says that "this is where national politicians go to get a gut check on middle America."



The Democrats are optimistic about their chances of improving on their performance in 2004. In that year Mr Bush succeeded in making the election a referendum on national security and patriotism. This year support for the war is much softer than it was, and worries about domestic issues more pronounced. Ohio lost 236,000 manufacturing jobs during the Bush years. Worries about health care hit hard in a state where jobs are either threatened or disappearing.

The Ohio Democratic Party is also resurgent after a long period of Republican dominance. In 2006 Ted Strickland won the governorship by a 24-point margin, and Sherrod Brown easily dislodged a sitting senator. The Democrats also swept the board for statewide offices, giving them control of the state's political machinery. In 2004 the Democrats argued, with some evidence, that Ken Blackwell, the staunchly conservative secretary of state, was not overzealous in ensuring that all Democrats could exercise their right to vote.

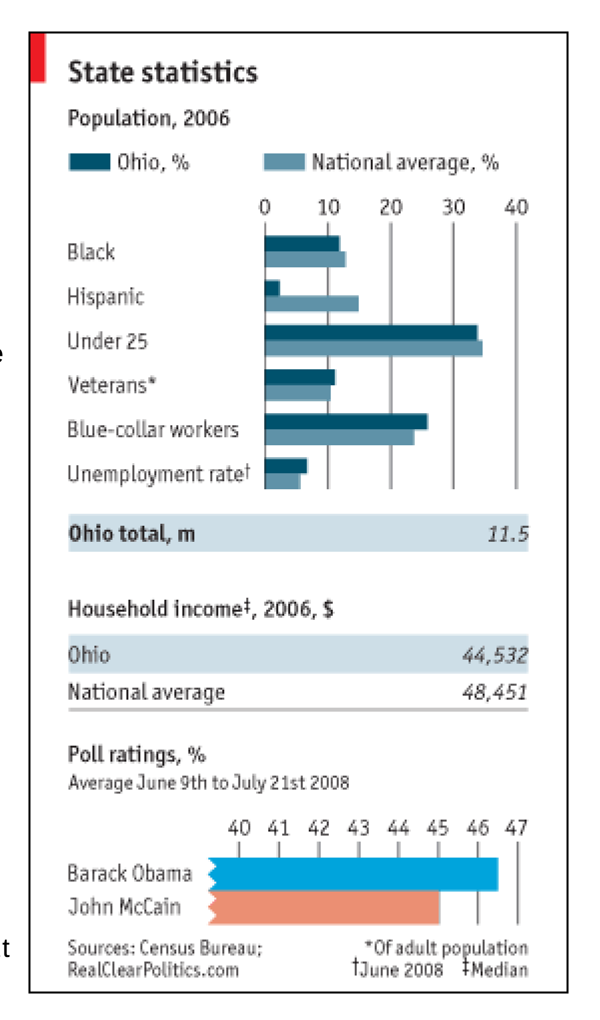
But the polls are nevertheless surprisingly close. RealClearPolitics gives Mr Obama an average 1.5-point poll lead. The most recent poll, for Rasmussen, gives Mr McCain a ten-point lead (this may be a rogue poll, but Mr McCain has been gaining in six other battleground states.)

Mr Obama, it seems, still has a problem connecting with the white working-class voters who hold the fate of Ohio in their hands—the people who dominate the old-manufacturing towns in the rustbelt around Cleveland and Akron in the north and the Appalachian countryside in the east. Mr Obama outspent Hillary Clinton by two to one in Ohio, running a blitz of ads attacking NAFTA. He had the benefit of a state-of-the-art organisation and considerable momentum from a string of victories. But he still lost the state by ten points.

Democrats argue that this was a pro-Clinton vote rather than an anti-Obama one. But this is optimistic. A quarter of Democrats nationwide tell pollsters that they are either leaning towards Mr McCain or undecided. The Ohio working class has a strong sense of tribal pride, often expressed in terms of suspicion of outsiders—particularly of the condescending coastal elites. The Democrats who have done well there have been southerners (Jimmy Carter and Mr Clinton), not big-city types or north-easterners.

Ohioans in places like Youngstown and Canton, where the landscape is littered with huge shuttered factories that once supported a prosperous middle-class, and where the only available jobs seem to be in Walmart or fast-food restaurants

are cynical about mundane promises, let alone airy-fairy ones about change. They have heard it all before, and the jobs keep disappearing. One of the most common complaints you hear from lunch-pail Ohio Democrats is "Who on earth is this guy?"



Get out the vote

This suggests that the fate of Ohio may be decided by exactly the same thing that it was in 2004—the relative strength of the party machines on the ground.

It would be a mistake to read too much into the Republicans' catastrophic defeat in 2006, which resulted from local scandals as well as a national anti-Republican mood. The governor, Bob Taft, was indicted for bribery, and the state party was caught up in a bizarre investment scam involving precious coins. This time around the Democratic Party has an embarrassment of its own: the attorney-general was forced to resign after a sex scandal.

The Republicans have a battle-hardened machine that still has access to most of the infrastructure that Mr Bush established for 2004. The mood in the party's headquarters in Columbus is combative. The walls are decorated with pictures of Mr Obama with the word "Hope" changed into "Nope". Mr Mauk points out that the Republicans still control both houses of Ohio's legislature, despite the anti-Republican mood. He also says that down-to-earth Ohioans are much happier with "straight talk" than high-flown rhetoric.

But two things should worry the Republicans. The first is the enthusiasm gap. Evangelical voters were fired up in 2004: they had a close emotional bond with Mr Bush and the ballot included an initiative on one of their core worries, gay marriage. Mr Bush won among people who attend religious services weekly by 60 points to 34. But this year the people who are fired up are blacks (12% of the population) and young people concentrated in university towns like Columbus and Athens. Evangelicals are at best lukewarm towards Mr McCain. By contrast, when Mr Obama addressed the NAACP in Cincinnati, 5,000 people turned up to watch his speech on a big screen in the town square.

The Democratic Party has also revamped its political machine. Its headquarters in Ohio is a very different place from what it was four years ago, a frenzy of youthful activity rather than a morgue. In the summer of 2004 the party had six full-time staff. Now it has more than 50, thanks to Messrs Strickland and Brown.

The Democrats have also learnt from their mistakes. In 2004 they relied heavily on outside groups ("527s") that were forbidden by law from co-ordinating with the Kerry campaign. This resulted in both mixed messages and unnecessary duplication. This time everything is being done in-house. And this time there will be no more "strangers talking to strangers": they are going to use local people to canvass their friends and neighbours, just as the Republicans did in 2004. The party thinks that these "local validators" are particularly important when you are running a candidate like Mr Obama.

The visible improvement in the Democratic Party machine should trouble Mr McCain. There are several ways in which the Democrats can win the White House without Ohio's 20 votes. But no Republican has ever won the presidency without also winning Ohio.

Congress

The perils of House-keeping

Jul 31st 2008 | WASHINGTON, DC
From The Economist print edition

Will the Democrats be able to hold on, and for how long?

CONGRESS'S approval rating, always pretty low, recently hit a truly dismal 9% in one survey: under the leadership of Democrats Nancy Pelosi and Harry Reid, the legislative arm is considerably more unpopular than even George Bush's executive one. All the same, polling indicates about half of Americans want to see the Democrats stay in command of Congress, while only an average of around 38% want the Republicans to regain the control they lost at the 2006 midterms. Often, midterm gains are swiftly followed by reverses. But since 2006 the Democrats have picked up three seats in by-elections in usually red districts. In a stinging blow, the Republicans even lost the seat of Dennis Hastert, the last Republican speaker in the House.

These results seem to have silenced predictions that the Democrats cannot follow up on their win in 2006, when they successfully turned the House race into a referendum on Mr Bush. The Democrats might, indeed, lose some of the seats they took from scandal-tainted incumbents in 2006, such as the Texas seat of Tom DeLay (alleged campaign-finance violations) or the Florida seat of Mark Foley (flirting with teenagers). But as Tom Davis, a moderate Republican congressman, describes the Republican brand after eight years of Mr Bush thus: "If we were a dog food, they would take us off the shelf".

The Democrats, meanwhile, continue to score higher on issues such as health and, critically, the economy. Party leaders have also cleverly courted conservative Democrats to run in close races, embracing the middle ground their rivals have vacated. The Democrats hope to pick up seats in areas of the country that are blue or bluing, such as in northern Virginia; in a slew of swing districts, such as in suburban New Jersey; and in districts in which scandal has wounded the sitting Republican, such as Alaska's at-large House district.

The oddsmakers at *Congressional Quarterly* reckon that the Democrats have 199 safe races and 37 that lean their way—the size of their current line-up. A good showing in 14 toss-up races and upsets elsewhere could produce double-digit gains. Some experts predict a Democratic gain of close to 20.

An unusually large number of Republicans are standing down this year, leaving no fewer than 28 seats for the party to defend without the benefit of incumbency. The party will have been happy to get resignations from lawmakers who were unlikely to win re-election, such as scandal-plagued Barbara Cubin in Wyoming. But there are chances now for Democratic challengers such as Linda Stender in New Jersey's 7th district, who nearly won there in 2006.

Ms Stender and others will get help from a big Democratic war-chest. The party's House campaigning arm had $55m in the bank at the end of June, $46.5m more than its Republican counterpart, and it plans to spend $53m on advertisements in 51 key races. This year the majority has also showered its vulnerable incumbents with money for pet projects. Still, Democrats should not get too confident. Tom Cole, the head of the Republican's House election effort, says third-party spending will help close their funding gap, and that the Democrats will have a harder time than they expect expanding their majority on native Republican soil, particularly if John McCain remains competitive.

And if the Democrats do defy history and gain more seats this year, their ideologically diverse majority will be both unwieldy in legislating and difficult to defend. The "party of the people" seems to have a tight grip on the people's house—at least for now. But Bill Clinton had a Democratic majority in the House for his first two years, before disaster struck in 1994.

The housing bill

When feds rush in

Jul 31st 2008 | WASHINGTON, DC
From The Economist print edition

How much should government meddle in the market?

FROM afar, the government's latest rescue package for America's tottering housing market seems a model of bipartisan accord. As investors dumped the stock of Fannie Mae and Freddie Mac, pushing down the share price of the mortgage giants and increasing worries about their solvency, George Bush advanced a plan to shore up these "government-sponsored enterprises" (GSEs), which own or back around half of all mortgages in the country. Democrats tacked it on to a large housing bill already making its way through Congress, and on July 30th, Mr Bush signed the whole package into law. Even Barack Obama and John McCain favoured it, though they were too busy campaigning to vote.

Hank Paulson, the treasury secretary, will have short-term permission to buy equity in Fannie and Freddie, limited only by the federal debt ceiling, which the Democrats duly raised to $10.6 trillion. That liquidity backstop comes with a new, more powerful regulator for the GSEs. And the Federal Reserve will now "consult" with the enterprises in order to contain the risk to financial markets.

In return for passing Mr Bush's rescue plan intact, the Democrats got their housing bill past the White House. Under the plan, the Federal Housing Administration can guarantee the refinancing of $300 billion of distressed mortgages into cheaper, fixed-rate loans, as long as lenders who take part agree to write down principal to 90% or less of a home's current value. Generous subsidies for home-buyers will also get fatter. A tax benefit for the troubled automobile firm Chrysler also sneaked into the bill, and Congress also this week approved a programme to encourage banks to issue so-called covered bonds.

Many in Washington are unhappy. "Socialism," declares Jim Bunning, a Republican senator. Most of the Republicans in the House—149 of them, including John Boehner, the party's leader in the chamber—opposed the package, despite the appeals from the White House. These political fault lines will only deepen.

Should the Treasury ultimately bail out Fannie and Freddie, the Congressional Budget Office gave $25 billion as its best estimate of the cost, though this is plainly not a reliable figure. Christopher Dodd, the chairman of the Senate's banking committee, dismisses the figure as "two months in Iraq". But it is too much for congressmen who worry about the government risking taxpayers' money to prop up private entities. Many think the pair shouldn't have been created in the first place. Now the fear is that their status as quasi-governmental institutions has been firmly cemented with a new regulator and an explicit federal guarantee of their solvency. Nancy Pelosi, the speaker of the House, indicated after the bill passed that Congress may reconsider the "hybrid nature" of the firms in the future, setting up a future tussle between those who favour privatising their functions, those who want to nationalise them and the powerful lobbyists working for the GSEs.

AP

Paulson the "socialist"

Meanwhile, Republicans fret about the moral hazard of rescuing distressed borrowers, some 400,000 of whom could benefit from the Democrats' refinancing plan. The programme could also flop; lenders must agree to hefty write-downs in order to take advantage of the deal, and it is unclear how many will agree to that. But that could be even worse for conservatives: should the refinancing programme fail or another financial institution collapse, some Republicans worry, the Democrats will have a pretext to push for more aggressive—and more expensive—intervention in the housing market.

A newly riled right might not be able to stop the Democrats. Still, another fight would inflame a broader debate, dormant until recently on Capitol Hill, about just how much the government ought to meddle with this struggling economy.

Public health

Meet the new neighbours

Jul 31st 2008 | SANTA ANA
From The Economist print edition

California's housing turns deadly

THE empty house, in a middle-class corner of southern California, is two storeys high and boasts a three-car garage. Roses bloom around a kidney-shaped swimming pool, which is green with algae. Bill Bobbitt, a county inspector, dips a ladle into the water and brings up half a dozen wriggling larvae. Mosquitoes, and the West Nile virus that some of them carry, are thriving in California's plunging property market.

West Nile virus arrived in America in 1999 and made it to California three years later. Since then it is known to have infected 2,300 people in the state, of whom 76 have died. In Orange County this is the worst summer yet. By this point last year officials there had discovered nine birds that had been killed by West Nile virus and not one infected mosquito. So far this year they have found 219 infected birds and 75 infected mosquitoes.

Some of this rise is due to better testing and co-operation with the animal services department, which receives most reports of dying birds. But a much bigger cause is the housing crunch. Fully 63,000 homes were foreclosed in California between April and June, according to DataQuick, a property data services outfit. In the past year the number of Orange County homeowners who have defaulted on their mortgages has more than doubled. Empty houses mean untended pools. Untended pools quickly breed mosquitoes.

Dead birds are also piling up in neighbouring counties like Los Angeles, San Diego and San Bernardino, which also have high foreclosure rates. Last week 170 infected mosquitoes were discovered in the state as a whole—the highest tally ever. So far this year 13 human infections have been reported in California, but the numbers are expected to grow rapidly as the summer moves on. John Rusmisel, president-elect of the board responsible for killing the critters, says a peak in infected mosquitoes is generally followed, two or three weeks later, by a peak in human cases.

In theory, owners are supposed to keep their properties in decent shape whether they live there or not. California has even passed a bill fining banks and mortgage companies that seize properties and then allow pools to fester. But Mr Bobbitt isn't waiting for the lawyers. He has treated the pool in Santa Ana with oil and synthetic growth hormones, which will keep the mosquitoes adolescent, preventing breeding. Then he tips in a few dozen mosquito fish (*Gambusia affinis*), which begin happily munching larvae. You can buy a lot of the fish for what a lawyer charges per hour, and some authorities, with commendable creativity, even provide them free to help control the pests.

New York's finances

In a state of shock

Jul 31st 2008 | NEW YORK
From The Economist print edition

An economic call to arms to offset staggering budget shortfalls

Illustration by S. Kambayashi



IT HAS been 33 years since the headline "Ford to City: DROP DEAD" was on the front page of the *Daily News*, but it has not been forgotten by New Yorkers. At the time, New York was on the brink of bankruptcy. The city defaulted on some bonds and owed $5 billion. One in five of all city jobs (including police ones) were eventually eliminated. The city closed several firehouses. But Gerald Ford was unhelpful.

Now, because of Wall Street's ongoing meltdown, another fiscal crisis appears imminent, this time at state level. Costs are rising and revenues are falling fast. In June 2007 the 16 banks that pay the most taxes on their profits remitted $173m to the state treasury. Last month this dropped to $5m, a 97% decrease. This is a frightening fall given how much the state's coffers rely on Wall Street taxes: 20% of all state revenues come from financial companies.

David Paterson, New York's governor, delivered an unprecedented special address on July 29th on his state's deteriorating fiscal condition. Pointing out that the economy's problems are severe and are likely to get worse, he recalled the state legislature for an emergency economic session. He plans to cut state agencies' spending and to trim the state's workforce. He is pushing for a cash injection, via new public-private partnerships for state assets.

Mr Paterson's new budget plan places this year's state deficit at $6.4 billion, up from an already astronomical $5 billion. In less than 90 days, the projected deficit over the next three years has jumped 22% to $26.2 billion. But Mr Paterson, who promises the government will do more with less, still has to convince the state legislature, which is famously dysfunctional and much too generous with state money.

New York City, however, is in better shape than the state is. It is "as prepared for this downturn as we possibly could be", according to Mayor Michael Bloomberg, thanks to careful planning, including the creation of a new trust fund to cover health benefits to retirees. Felix Rohatyn, a banker who helped navigate New York out of its 1970s crisis, thinks that the city should be able to deal with its current

problems because of measures put in place then, like the Financial Control Board created to oversee budgets.

But even so the city, which is also heavily reliant on Wall Street for revenue, is facing budget shortfalls. It, too, has seen revenues fall: in its case by a billion dollars since May. The 2009 budget is supposedly balanced, but the city is facing deficits in years to come. Nicole Gelinas, of the Manhattan Institute, says even a partial defined contribution plan for new city workers would help offset the city's crippling health costs. A 7% property tax cut could be rescinded to offset some of the angst.

But more stress is likely. The city thinks Wall Street bonuses will decline by more than 20%. Financial firms posted $22.8 billion in losses in the first quarter and the big investment banks are laying off thousands of people. Wall Street lost 4,300 jobs during the month of June alone.

Bicycles

Bumpy roads

Jul 31st 2008 | SEATTLE
From The Economist print edition

It's not all free wheeling

Reuters


Make way

WITH petrol the price it is, more and more people are riding a bicycle to work. In Broward County, Florida, about 35,000 people a month typically put their bicycles on a bus bike-rack, thereby shortening a cycle commute. In May of this year, 68,000 people did so. Denver saw 25,000 people register for a recent “bike to work” day, up from 15,000 a year ago. In Seattle cyclists complain about a shortage of bike stands, while in Portland, Oregon, some 6,000 cyclists cross just one of the city's many bridges each morning.

Bicycle-boosters are thrilled with the sudden popularity of their humble machine. “Ridership is just skyrocketing,” says Elizabeth Preston of the League of American Bicyclists, a Washington, DC, advocacy group (even cyclists have lobbyists these days). Performance Bicycles, a retailer with shops in 15 states, says bicycle sales in June were the highest ever recorded.

But cycling's popularity has a downside. The people of Portland, for instance, have been entertained over the past few days by a series of altercations between bicyclists and motorists. In one, a motorist and cyclist came to blows after the motorist berated the pedal-pusher for ignoring a stop sign. The enraged cyclist used his bike to batter the motorist's car until a bystander punched him.

In Seattle, meanwhile, two cyclists were arrested after they attacked a motorist during a so-called “Critical Mass” ride, events where large groups of cyclists ride through city streets to demonstrate their right to the road. New York cyclists are up in arms about an incident in which a police officer, for no apparent reason, knocked a cyclist off his bike and then arrested him and tried to pretend the man had run into him until a video recording proved him wrong. And in Colorado, reports the *Los Angeles Times*, cyclists have been feuding with the sheriff of Larimer County for his aggressive—cyclists say unreasonable—enforcement of bike-related traffic laws. More seriously, most bicycle advocates say cycling deaths are sharply up, although the National Highway Transportation Safety Administration has no figures as yet for 2008.

After years of federal and local spending on bike routes and other amenities, most cities are ready to handle more cyclists. But many motorists simply don't see their two-wheeled brethren or, when they do, find them aggravating. Managing more cyclists is going to take more than new bike paths or fresh stripes on the roads. It looks as though there is a need, on both sides, for a revolution in manners.

Mount Rushmore

Two sides to every story

Jul 31st 2008 | RAPID CITY
From The Economist print edition

The awkward history of a monument

EACH summer families drive from South Dakota's plains into the Black Hills, thick with ponderosa pines. The road winds upward, past the Putz 'n Glo mini-golf, through the town of Keystone, once home to miners and now to olde stores. Then around a bend they appear: George Washington, Thomas Jefferson, Theodore Roosevelt and Abraham Lincoln, each face some 60 feet (18 metres) high.

Inspiring, absurd, magnificent—however you describe Mount Rushmore, in its scale, ambition and subject it is uniquely American. But like many stories of the American West, this one has several sides. For many American Indians, it is a symbol of all the country has done to betray them. Now Gerard Baker is trying to give visitors from both sides a broader view. A towering man, with grey braids falling from either side of his ranger hat, Mr Baker is the first American Indian to be superintendent of Mount Rushmore.

The monument's history is a jumble of legend and fact. In 1923 a South Dakotan proposed a giant carving as a way to lure the new breed of car-borne tourists. Despite early criticism—one writer called the project "as incongruous and ridiculous as keeping a cow in the rotunda of the capitol building"—in 1927 Calvin Coolidge dedicated the carving, the New Englander wearing a ten-gallon hat to help him blend in. Mount Rushmore's sculptor, Gutzon Borglum, was equal parts idealist and egomaniac. But Mount Rushmore, finished in 1941, is an icon. In a busy year it can lure almost 3m people.

Beside these stories are darker ones. Borglum was linked to the Ku Klux Klan. And the history of the Black Hills sparks even more anger. A treaty in 1868 made the hills, which contain sites sacred to many Indian tribes, part of the Great Sioux Reservation. Whites simply ignored the treaty and poured in after General George Custer sent reports of the presence of gold by the panful in 1874. A century later, in 1980, the Supreme Court confirmed a $105m settlement for eight tribes, but the money remains largely untouched and efforts to reclaim the land continue. "The seizure of the hills was unconstitutional," says Herbert Hoover, a professor emeritus at the University of South Dakota. "I just don't see any solution."

Towering above this debate is Mount Rushmore. In 1948 a Lakota chief commissioned a vast carving of Crazy Horse, a famous Indian warrior. The project is still in progress some 15 miles away. But Mount Rushmore remains divisive. A tribute to America's "manifest destiny" to expand to the west is carved into land that Charmaine White Face, of Defenders of the Black Hills, calls "illegally occupied".

This complex history is what lured Mr Baker. His goal, he says, is to nurture understanding and, one day, healing. Since coming to Mount Rushmore in 2004, he has stressed the importance of paying due attention to Borglum and the presidents. But he has also visited reservations to learn which tales tribes want to hear. Rushmore now has three teepees where Indians describe local traditions. The audio guide is offered in the Lakota language.

On any summer day thousands of visitors stroll through Rushmore, many licking ice-cream cones wrapped in paper American flags. Mr Baker hopes that when they leave, they will have learned a bit more "about Mount Rushmore, about the Black Hills, about what we call America".

Lexington

The seniors' club

Jul 31st 2008
From The Economist print edition

America's longest-serving Republican senator has been indicted

Illustration by KAL



THOMAS JEFFERSON once asked George Washington why he had agreed to a two-house Congress. Washington, noting that Jefferson had poured his tea into his saucer in order to cool it, said that he had answered his own question. "We pour House legislation into the senatorial saucer to cool it." But the father of the nation never imagined that the inhabitants of his cooling chamber might try to pocket the silverware and run off with the teapot.

On July 29th Ted Stevens, the senior senator for Alaska and the longest-serving Republican in the upper house, was indicted on seven counts by the Justice Department. The department accuses Mr Stevens of falsely reporting hundreds of thousands of dollars of services he received from an oil company that had helped to renovate his home. He denies all the charges.

The "services" seem paltry given the billions of dollars at stake in oil deals. His house is hardly a mansion: one newspaper talks of "peeling paint and an overgrown backyard". Mr Stevens's loot included some furniture and a stove. The interesting thing about the Stevens case is not what it tells us about suspected corruption but about everyday political life in Mr Stevens's intersecting worlds, Alaska, the Senate and the Republican Party.

Mr Stevens has used his decades in the Senate—he first arrived there in 1968—to pour billions of dollars into his home state: so much money that Alaskans refer to him as "Uncle Ted", talk of "Stevens money" and joke about changing the name of the currency to "the Ted". The state is littered with tributes to his powers, such as the Ted Stevens Anchorage International Airport. There is even a federal penitentiary named after him.

Alaska likes to think of itself as the "last frontier"—a place where rugged entrepreneurs carve a living out of an unforgiving landscape. But in fact it is a quasi-welfare state. Alaska has been number one in per capita federal spending for more than 16 years, with $13,800 being spent on each Alaskan in 2006. Much of the state's economy—particularly oil and fishing—is based on making money out of government-controlled land and sea. Each of its 680,000 inhabitants gets an annual payout from the state's oil fund of $1,654.

Mr Stevens puts up a vigorous defence of his activities. Alaska is a unique state with unique needs, he argues: a geographically isolated and sparsely populated giant of a place that was only admitted to the

Union in 1959, it needs government money in order to pump-prime the private economy. But Mr Stevens's model of development had created an inbred class of politicians and businessmen who spend their lives doing favours for each other.

Mr Stevens was first appointed to his Senate seat by the then-governor, Walter Hickel. The junior senator, Lisa Murkowski, was appointed by her father, Frank Murkowski, when he left the Senate to become governor. (She has since been re-elected.) These hereditary politicians—and dozens of smaller players in the state capital, Juneau—are all hand in glove with the state's big industries, particularly oil. Some local politicians have even taken to wearing baseball caps embroidered with the letters CBC—for "Corrupt Bastards Club". The scandal that is consuming Mr Stevens is also consuming lots of local politicians, including his son.

The Stevens affair poses some awkward questions about the Senate. Its seniority system gives extraordinary power to people who can get in early—perhaps because they have a family name like Kennedy or a powerful patron—and then stay around for as long as possible. This gives a disproportionate amount of power to people from small states with non-competitive political systems (Mr Stevens was chairman of the Senate's most powerful arm, the cash-dispensing Appropriations Committee, for seven years.) It also encourages states to keep voting for incumbents and incumbents to hang on until they drop. The current Senate contains 26 people who are 70 or over.

It also poses yet more problems for the Republican Party in an election year. Mr Stevens's indictment gives the Democrats a chance to resurrect the corruption charges they used so effectively in 2006. It also gives them a chance to raise the question of hypocrisy. The Republicans have always claimed to be the party of limited government and fiscal restraint. But when it comes to their own constituents they are all for handing out free money.

Baked Alaskan

Is Mr Stevens's disgrace proof that people have had enough of all this? There are some encouraging signs. Alaskans once named Mr Stevens "Alaskan of the century". Now they seem ashamed of what he stands for. Even before this week, he was stuck in a close re-election race against his Democratic rival, Mark Begich, the mayor of Anchorage, and also facing a primary challenge from a disgruntled Republican. Sarah Palin, the Republican governor of Alaska, has made her name campaigning against the state's corruption and nepotism.

Mr Stevens has also become a national symbol of out-of-control spending. His voluble support for a $400m "bridge to nowhere"—in fact, to a sparsely populated island where his friends owned land—helped to create a huge backlash against "earmarks", particularly among fiscal conservatives. Tom Coburn, a Republican senator from Oklahoma, tried to divert the largesse from Alaska to Katrina-ravaged New Orleans. John McCain is a long-standing campaigner against pork-barrel spending.

Mr Stevens managed to roll over the objections to his bridge in the Senate. "I will put the Senate on notice—and I don't kid people—if the Senate decides to discriminate against our state, to take money from our state, I'll resign from this body. This is not the Senate I came to." It would be nice to think that Mr Stevens is right for once about his last point. But the Senate is pretty hard to shame. Mr Stevens's successor as chairman of the Appropriations Committee is Robert Byrd, a 90-year-old Democrat from the pork-gobbling state of West Virginia.

Bolivia

Carry on voting

Jul 31st 2008 | LA PAZ
From The Economist print edition

Two reports, first from Bolivia and then from Ecuador (see article), on the radical socialists who hope that constitutional referendums will transform their countries

AP



IT IS supposed to break a deadlock. But as Bolivians prepare to vote in a recall referendum on August 10th, in which they will be asked either to confirm or eject both Evo Morales, their socialist president, and the country's elected regional governors, who include some of his strongest foes, they may merely lock one of South America's poorest countries into an impasse between irreconcilable factions.

Since being elected president in December 2005, Mr Morales, a coca-workers' leader of Andean Indian descent, has shown his radical colours by reimposing state control on the natural-gas industry and on privatised mining and telecoms companies. But he still has a more ambitious plan to "refound" Bolivia. At the centre of this is a new constitution that would increase the state's role in the economy, strengthen the powers of the president, weaken the judiciary and give some indigenous communities greater autonomy. The text was hurriedly approved in December by an assembly at which the opposition was not present, but it must still be approved in a separate referendum.

The opposition, which has its base in Bolivia's more prosperous, gas-rich eastern lowlands, fears that Mr Morales wants to introduce a Venezuelan-style socialist autocracy. In the past three months, four eastern departments, including Santa Cruz, the richest, have held unofficial referendums in which voters have overwhelmingly backed local autonomy, thus expressing their desire to opt out of the president's project. They particularly dislike his plans to reduce their share of gas revenues and to impose land reform.

Mr Morales's supporters hope the recall referendum will allow him to regain the political initiative. Certainly, he seems likely to survive the vote. To eject him, opponents must notch up more votes than he won in 2005, when he gained 53.7%. Some of the regional governors (known as prefects) are likely to be booted out, but not Santa Cruz's. Some of them question the referendum's legality. They also worry that by loosening procedures for voter registration the government is opening the door to fraud. But the referendum was approved by the main opposition party.

The Bolivian governments of the past used to be plagued by budget deficits and depended on foreign aid. Mr Morales is in a happier position. His quasi-nationalisation of natural gas has put plenty of money at his disposal, a windfall far more valuable than the aid he receives from his friend Hugo Chávez, the like-

minded president of Venezuela. Total public spending rose from 34% of GDP in 2005 to 42% in 2007, and still the fiscal accounts are in surplus. Some of the extra cash has gone on new programmes aimed at reducing poverty, which afflicts some 60% of Bolivians. These include free school meals and a cash payment for mothers who make sure their children go to school. Mr Morales has also raised the minimum wage and expanded the public payroll.



This fiscal largesse has helped the economy to grow at an annual rate of 6% in the first quarter of this year. Building workers earn twice what they did three years ago and skilled workers even more. Though urban Bolivians grumble about inflation, which reached an annual rate of 17% in June, higher food and mineral prices have helped farmers and self-employed miners.

All of this means that Mr Morales remains popular. Opinion polls give him an approval rating of over 50%. If he wins the recall vote, he is likely to push forward with the referendum to approve his new constitution. But since most of the governors in the south and east are also likely to emerge with fresher and stronger mandates, this month’s vote is unlikely to knock the opposition out.

The stand-off is costing Bolivia dear. It has paralysed the judiciary, squeezed private investment nearly dry and brought a worrying uptick in violent clashes between radicalised groups on each side of the divide. Till now neither side has been prepared to compromise, even though both have much to gain from doing so.

If the deadlock persists, it may fall to a third party, such as the Catholic Church or the Organisation of American States, to broker a climbdown. In a paper for Inter-American Dialogue, a think-tank in Washington, DC, George Gray Molina, a Bolivian political scientist, argues that the first step should be “a return to legality”, involving consensus appointments to vacancies in the top courts and changes to the new constitution to allow more regional autonomy. The alternative is stalemate.

Ecuador

The good life

Jul 31st 2008 | QUITO
From The Economist print edition

For the president and for lawyers

Reuters



Correa dictates his socialist credo

Get article background

IF ONLY size, novelty and good intentions were everything when it came to constitutions, Ecuador would be a paradise. The document approved on July 25th by a Constituent Assembly dominated by supporters of Rafael Correa, the leftist president, is a 444-article behemoth. If approved by a referendum on September 28th, it will become Ecuador's 20th constitution and the third in as many decades. It is nothing if not politically correct: it bans foreign military bases, promises a "just wage" and enshrines manifold rights, including that to *sumak kawsay*, or "good living" in Quichua, one of two indigenous languages whose use it now makes official alongside Spanish. Whether it will improve real life in a chronically misgoverned country is another matter.

Mr Correa insists that it will. He says the new constitution puts an end to "partyocracy", "neoliberalism", and the rule of economic "mafias". One of his main aims is to reduce the clashes between the executive and a powerful but fragmented legislature that has seen the past three elected presidents fail to finish their term. The new text does this by substantially increasing presidential power. The president will be able to dismiss the legislature. Mr Correa's nominees seem sure to form a majority on a powerful new Constitutional Court.

The constitution officially declares Ecuador to have a "social and solidaristic" economy. It gives state-owned companies a dominant role in oil, mining, electricity, transport and telecommunications, reflecting the government's mistrust of the private sector. "The market is an excellent servant but a terrible master," says Mr Correa.

This socialist pitch is popular in Ecuador largely because the country was scarred by an economic collapse in 1999, which featured a mishandled banking crisis, hyperinflation and the adoption of the dollar as the currency.

Opponents of Mr Correa worry that the constitution imposes an earlier failed economic model on the country. Although the state already controls much of an oil-dominated economy, the private operators of a handful of water utilities and airports face an uncertain future. The new constitution bans international arbitration and gives priority to local investors over foreigners. So it is certain to drive away almost all foreign investment. The Central Bank will come under presidential control: that paves the way for a possible future abandonment of the dollar in favour of a new local currency, and for the potential massaging of economic statistics.

Mr Correa, a youngish Catholic economist, who took office 18 months ago, remains popular. High oil prices have given him money to spend on social programmes. Public investment is running at twice last year's level. He is likely to win the referendum, and a fresh election next year. But his success depends on oil money. By writing into it his personal political creed, Mr Correa has almost certainly guaranteed that Ecuador's latest constitution will not long outlast his tenure of the presidency. And if Ecuadoreans do see much of the good life, they are likely to have to pay for it dearly in the future.

Mexico

Left behind

Jul 31st 2008 | MEXICO CITY
From The Economist print edition

The left's strange disarray

ONLY two years ago, Mexico's centre-left Party of the Democratic Revolution (PRD) came within a couple of hundred thousand votes of winning the presidency. It was the party's best result since its foundation two decades ago. Yet far from capitalising on this strength, the PRD seems to have lost much of its public appeal. When it held a much-trumpeted unofficial referendum on July 27th as part of its campaign against the government's proposal to liberalise the state oil monopoly, the turnout was low.

The party's problems stem from the refusal of its presidential candidate, Andrés Manuel López Obrador, to accept that he was defeated in 2006, albeit narrowly. On the one hand, this has alienated many ordinary Mexicans. On the other, it has split his own party. An election for party president in March was annulled after months of wrangling.

The government's timid plans to allow more private investment in oil, a nationalist totem, seemed to have given Mr López Obrador an issue with which to resurrect his career. The PRD forced the government to hold a lengthy public debate on the matter. It hoped that its referendum would sway this debate by delivering a decisive public rejection of change. More than 80% of those who voted duly rejected the government plan. But only 1.5m turned out in Mexico City and the nine other states where the referendum was held, which have a total population of 45m. The organisers had hoped for many more.

Even within the PRD, a moderate faction around Guadalupe Acosta, the party's interim leader, believes in talking to other parties about energy reform, whereas Mr López Obrador has threatened civil disobedience over the issue. Insults are flying between the two factions. Some of the left's own supporters are becoming weary at this disarray. *Proceso*, a newsweekly that has long given slavish backing to the party, recently ran a special section asking "Can the PRD be saved?"

What makes all this odder is that the party ought to be riding high. It controls five states and Mexico City, as well as being the second-biggest force in Congress. With economic growth slowing, and the government's bloody war against drug traffickers going far from well, the PRD might normally expect to make big gains in a mid-term congressional election next year. Instead, it faces a drubbing.



Cuba

Big brother's shadow

Jul 31st 2008 | HAVANA
From The Economist print edition

Raúl Castro preaches patience

HE TOOK over as Cuba's acting president two years ago, and was officially confirmed in the job in February. But in some ways Raúl Castro must still govern in the shadow of his older, and ailing, brother, Fidel. If any Cubans had forgotten this, they were reminded as he took to the podium in Santiago, Cuba's second city, on July 26th to deliver the annual speech that marks the anniversary of the official start of the country's revolution. Raúl, a short man, was dwarfed by a vast image of Fidel, clenching his fist in salute.

In the past few months, Raúl has introduced a series of small but significant changes. He has dropped some of the petty restrictions that irritate Cubans. If they can afford it, they are now free to buy DVD players, stay in tourist hotels and use mobile phones. More significantly, private farmers can buy their own supplies and equipment, and cultivate more of the vast tracts of idle state-owned land. Even the egalitarian dream under which heart surgeons were paid barely twice as much as street cleaners is being ended, with the introduction of performance-related pay.

These steps signal that consumerism is no longer officially frowned upon, and that Raúl Castro recognises that private initiative is essential to reduce his country's dependence on imports and eventually to allow Cubans' derisory wages to rise. The mini-reforms have been popular, and Cubans expect more. Officials have hinted that the right to buy cars, to travel, and even to buy and sell property is being considered behind the scenes. There are signs, too, that they are discussing a bigger role for private enterprise beyond farming.

But Raúl had no such announcements to make in Santiago. Instead, his subdued audience of 10,000 were told in some detail of government investment in roads and in addressing the city's appalling water shortage. Austerity, not market reform, was the message. "As much as we desire to solve every problem, we cannot spend more than what we have," Mr Castro said. He cited rising oil prices (though the island receives more than half its oil from Venezuela at a concessional price). The government had already said that rising food prices would cost the country an extra $1 billion this year.

So has the reformist drive halted having barely started? There are hints of intensifying debate, if not infighting, within the regime. Mr Castro noted that public discussion on raising the retirement age should not be open-ended. "We do not aspire to unanimity, which is usually fictitious," he said. That contrasts with Fidel's oft-repeated insistence on "unity".

Some foreign investors are betting that Cuba is heading on an increasingly capitalist route. A European fund which invests in Cuba found its share placing last March 70% oversubscribed. A London-based consortium has announced that it is going ahead with plans to build a €350m ($545m) country club and golf resort overlooking the Florida Straits, complete with luxury villas for sale to foreigners.

But change is likely to remain slow at least until the end of next year, when the Communist Party holds its long-overdue sixth congress. Mr Castro has said that the congress will set the country's "economic and political directives". Until then, Cubans will need yet more patience.

Canada

Zapped

Jul 31st 2008 | OTTAWA
From The Economist print edition

Do electronic stun guns take more lives than they save?

WHEN an electronic gun designed to immobilise but not kill emerged from the pages of science fiction and went into manufacture a decade ago, police forces around the world snapped it up. Instead of shooting suspected criminals who posed a threat, they could now zap them with 50,000 volts of electricity and have them safely in handcuffs before they recovered enough to resist or flee.

But are stun guns really non-lethal? Canadians have been wondering since a Polish immigrant died last October at Vancouver airport after police subdued him with a Taser, the most popular brand of the electronic weapon. An amateur video of the incident posted on YouTube sparked a public debate, and several official inquiries. On July 22nd a 17-year old youth in Winnipeg became the 21st person to die in Canada after being fired at with a Taser.

The gun's American manufacturer, Taser International, has sold 300,000 of them to police forces in 45 countries. It contends that just because someone dies after receiving a jolt, it does not necessarily follow that the Taser was to blame. It says—and some doctors agree—that pre-existing heart conditions, drug and alcohol abuse, and the agitation of having been pursued are all more likely causes of deaths in police custody. Tom Smith, Taser's chairman, told a committee of Canada's Parliament earlier this year that although 50,000 volts sounds like a lot, a static charge from a doorknob is almost as high.

Such arguments have proved persuasive with juries. Taser International has won or had dismissed 71 lawsuits for wrongful death or injury. Most of these cases were in the United States, where just over 300 deaths following Taser use have been recorded. (The company suffered a rare courtroom loss earlier this year when a Californian jury ordered it to pay $6.2m to the parents of a man who died after being shocked. It is appealing.) A company spokesman points out that no medical examiner in Canada has pointed to the Taser as a contributing factor in any deaths.

Yet doubts persist. In June the parliamentary committee urged the federal government to commission independent studies. Amnesty International, a human-rights group, wants a temporary ban on Taser use until the research is complete. None of the official reviews backs that, but they call for tighter rules on the use of Tasers and better training for officers who handle them. The Saskatchewan Police Commission has reversed a plan to deploy more Tasers and is restricting their use to specialised teams. By limiting the use of conventional guns by police the stun guns may indeed save lives. But Canadians do not like their police to be trigger-happy, even with "non-lethal" weaponry.

India's economy

Turning sour

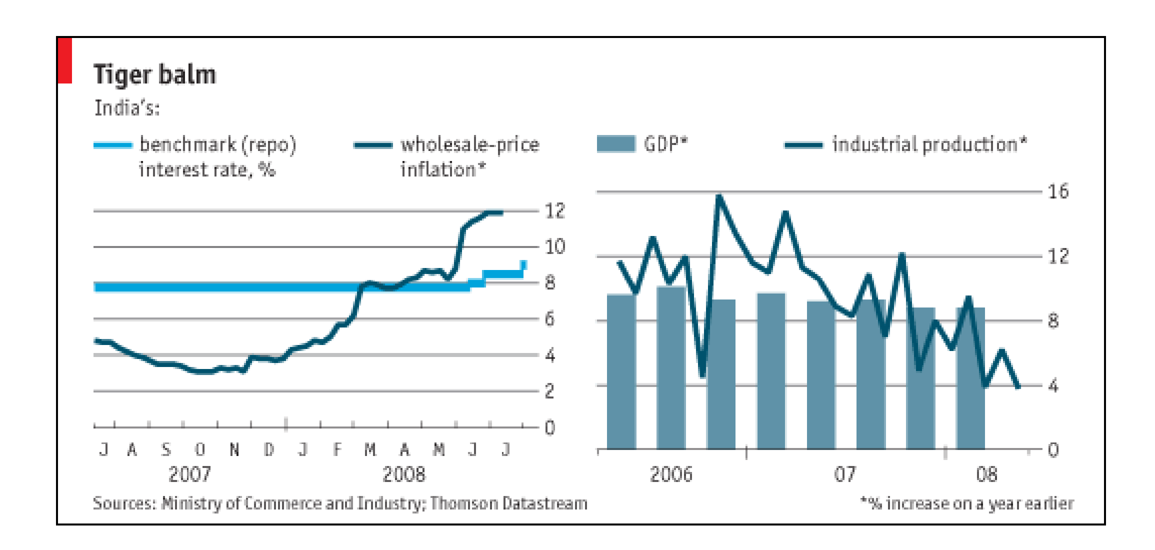
Jul 31st 2008
From The Economist print edition

Having won a vote of confidence at home, India's government now faces another—abroad

AFP


INDIA'S coalition government went to outlandish lengths to win a vote of confidence in Parliament on July 22nd, a victory it hopes will prolong its life until early next year. To appease one politician, it even renamed the airport in Lucknow, a state capital, after his father. (The ingrate still voted the other way.) Asked to justify this ploy, India's finance minister dryly remarked, "It will facilitate better take-offs and landings." Now he and his fellow reformers must facilitate a safe landing for India's economy. It too may go the other way.

Until the start of this fiscal year (which began on April 1st), India's economy had its head in the clouds. Having grown by at least 9% a year for three years, it was attracting more overseas capital than it knew what to do with. Foreigners ventured a net $20 billion on its booming stockmarket last fiscal year; overseas banks lent even more to its mighty companies.



But India's share prices were collapsing and its economy slowing even before July 29th, when the central bank stepped up its campaign against inflation by hiking its benchmark "repo" rate for the third time in less than two months (see chart). Industrial production expanded by only 3.8% in the year to May. The

figures for capital goods and infrastructure industries, such as steel, cement and electricity, were particularly dismal for a country that prides itself on having an investment boom.

A big gap has now opened up between the increasingly gloomy views of India's prospects from abroad, and the defiant optimism of its own forecasters. The Centre for Monitoring [the] Indian Economy, in Mumbai, thinks India will still grow by 9.5% this fiscal year. JPMorgan, a foreign bank, foresees growth of just 7%.

The imponderable is the oil price. Though prices have eased on world markets, India still faces an import bill for crude that may reach $120 billion this fiscal year, compared with $69 billion the year before. The extra burden is about 4% of GDP—a huge amount. The Congress-led government, which must go to the polls before May, is reluctant to pass on the full cost to voters. When it raised pump prices in June, the opposition described this as an "act of economic terrorism".

But by sparing households, it is jeopardising the public finances. Between them, the fuel subsidy, cheap fertiliser, forgiven farm loans and fatter pay-packets for bureaucrats, could increase the budget deficit to 10% of GDP this fiscal year, if the red ink spilled by state governments is included.

When you combine government largesse with the oil bill, you get an external deficit which could reach 4% of GDP this fiscal year. Narrowing that gap is a matter of urgency. The foreign capital needed to bridge it is now less forthcoming. The threat to India's exchange rate is plain.

It would be too sensational to talk of a run on the rupee. India is not a debtor nation: its foreign assets—including more than $300 billion of foreign-exchange reserves—outweigh its foreign debts. Moreover, the foreign investors with direct stakes in India's growth will not liquidate their back offices or assembly lines just because of a bit of cyclical gloom.

More fickle, however, are the foreigners who bet large sums on Indian shares when the stockmarket was in full bloom. They are deserting the country, withdrawing $6.7 billion so far in 2008. The only consolation is that as share prices fall, so does the amount they can repatriate, relieving some of the pressure on the currency.

Two modest reforms, pending in Parliament, might restore some of India's charms to foreigners even before the next election. Both are designed to encourage outside investment in the financial sector. One would raise the cap which limits foreign direct investment in insurance. The other would give foreigners who invest in Indian banks voting rights commensurate with their stakes. But India must learn to cope without an inrush of foreign money. That may entail slower investment and a narrower fiscal gap. In particular, the government, having won its confidence vote and prolonged its life, cannot now afford to wait until after the next election before again raising fuel prices.

Neither epic nor tragedy

Even as they dump shares, India's foreign investors should also take stock. They were wrong to count on a 9-10% rate of growth. Such a rate could be sustained only with a furious pace of economic reform, which India's mutinous democracy cannot provide. Any projection that relies on the wholesale unshackling of the market for labour, land or electricity would therefore be about as useful as the astrological projections that convinced India's opposition leader he would triumph in the no-confidence vote.

But India also benefits from what financial types might call the "democracy put": its politics forestall the worst outcomes, even if they squander the best. India's policymakers only seem able to reform under duress. They accomplish little during good times but have plenty of rabbits left in the hat when darker times loom. For example, India is still a lightly taxed country, and the proposed introduction of a nationwide tax on goods and services could add three percentage points to the taxman's share of GDP. Likewise, the government still owns hundreds of enterprises. It may not have time to flog much of this patrimony before it goes to the polls. But it could prepare the ground for a sale soon after.

In the past few years, foreigners have enjoyed reciting the "India story", the epic tale of a youthful nation throwing off its shackles to fulfil its destiny as an economic superpower. Indians enjoyed telling the story back to them, with justifiable pride and perhaps a little *masala* (ie, embellishment). That story is not all myth: in the past few years, India's sustainable rate of growth has increased from less than 6% to somewhere close to 8%. But as recent events show, the India story often resembles a comedy as much as an epic. Its policymakers run around in circles, swapping partners and scandalising onlookers, but with

luck pull it together at the end.

Terrorism in India

Blasts after blasts

Jul 31st 2008 | DELHI
From The Economist print edition

Fears of a new breed of terrorist—or the return of an old one

WITHIN days of a terrorism spree in India and a gunfight between their armies, the leaders of India and Pakistan, Manmohan Singh and Yousuf Raza Gilani, were due for an awkward encounter in Colombo on August 2nd. They were expected there for the annual shindig of South Asia's regional co-operation club, SAARC. As it happened, terrorism, as well as energy and food security, had long been on the summit's agenda. But after the recent violence, and the bad blood it has stirred, this seemed unusually apt—or, given how ineffectual SAARC is, tragic.

On July 26th at least 51 people were killed and 200 wounded by 19 bomb blasts in Ahmedabad, the biggest city of India's prosperous, western state of Gujarat. They came in two waves. The first ripped through the city's crowded old quarter. Twenty minutes later, car-bombs struck two hospitals to which victims of the first blasts were being rushed. Husband-and-wife doctors were among the dead.

The previous day, a lesser atrocity: a woman was killed and six people wounded by eight blasts in Bangalore, the capital of Karnataka state. The total body-count could have been greater. India's police defused two bombs in Ahmedabad and 22 in Surat, a Gujarati diamond-polishing hub.

A mysterious outfit called the "Indian Mujahideen" claimed responsibility for the Ahmedabad attack. It was reported to have sent an e-mail to Indian television-news channels shortly before, which read: "Await five minutes for the revenge of Gujarat." This presumably referred to the slaughter of more than 2,000 Muslims by Hindu mobs in 2002. Gujarat, the birthplace of Mohandas Gandhi, has an appalling history of Hindu-Muslim clashes. The state's Hindu-nationalist government, led by a saffron-clad demagogue, Narendra Modi, represents the most venomous, anti-Muslim wing of the Bharatiya Janata Party, India's main opposition party. Senior state officials have been accused of organising the massacres in 2002.

The Indian Mujahideen are accruing form. The group is reported to have emerged last November, when it claimed responsibility for attacks on courthouses and legal offices in Uttar Pradesh state. In May it claimed to be behind nine bomb-blasts in the pink-hued Rajasthani city of Jaipur, which claimed over 60 lives. These attacks and the one in Ahmedabad all occurred in places with large Muslim populations. This was also the case with other recent terrorist attacks, in Hyderabad, Varanasi and Mumbai, for which no one has taken "credit".

India's 150m-odd Muslims—the second biggest Muslim population after Indonesia's—have much to complain about. They are overwhelmingly poor, and in some places discriminated against, especially in Gujarat. Yet India's Muslims, a wary minority, have been unusually reluctant to answer the call to *jihad*. Few—and they are almost exclusively from insurgency-wracked Kashmir—have been reported on the battlefields of Iraq and Afghanistan. But has something now snapped?

It would seem that the Indian Mujahideen, or whoever is calling themselves by that name, wants to give that impression. They also seem to want to incite Hindu-Muslim violence, given their communally sensitive choice of targets. If so, they have mercifully failed, so far. The ambitious Mr Modi, who has been trying to restore his appalling image since his American visa was revoked in 2005, has shown particular restraint. He called the Ahmedabad bombers "enemies of humanity".

In the absence of much evidence, Indian commentators are minded to blame a proven foe, Pakistan. Over the course of a 60-year rivalry, its military spooks have made skilful use of Islamist militants against India, in Kashmir and elsewhere. It seems inconceivable that they would not still keep tabs on these zealots, even if they are not actively controlling them—as many in India believe that they are.

Recent events elsewhere have encouraged this view. A suicide bomber attacked India's embassy in Kabul in June, killing 41, including an Indian diplomat and an army general. Afghanistan and India openly accused Pakistan's Inter-Services Intelligence (ISI) agency of the crime. And on July 28th and 29th Indian

and Pakistani troops fought a 16-hour battle along the front-line bisecting Kashmir. Naturally, both sides blamed the other for starting the fight. India, which claimed to have killed Pakistani soldiers and lost one of its own, said this was the worst fighting between the two rivals since 2003.

In a time of redoubled instability in Pakistan, senior Indians fear the ISI may be trying to impose an outworn belligerent foreign policy on Mr Gilani's tottering government. That could spell peril for the countries' hopeful—though stalled—four-year-old peace process, which would be tragic for both.

South Korea

Mad as hell

Jul 31st 2008 | SEOUL
From The Economist print edition

South Korea's president turns on trade unionists and journalists

THE first boneless beef imported into South Korea from America for almost five years arrived at the dockside this week. It was a victory of sorts for President Lee Myung-bak, whose decision to end a ban on American beef imports prevailed over vast protests and the loss of three cabinet ministers. But the costs of victory continue to rise. The president is being drawn into a legal battle with broadcasters and trade unions.

Jin Young-OK, the vice-president of the Korean Confederation of Trade Unions, has been arrested and charged with organising illegal demonstrations and strikes. The president has accused two television broadcasters, KBS and MBC, of biased, emotional reporting that has incited Koreans to take to the streets. The president of KBS, Jung Yun-joo, is under pressure to resign; MBC has been indicted. The chairman of the Korea Commission for the Press, Chang Heng-hoon, complains that the president's "way of thinking about the press is to use it as a tool to control public opinion."

Mr Lee is not going to back down any time soon. He has the support of the three main daily newspapers and his Grand National Party wants to up the stakes by making it a crime to post on the internet disinformation that incites illegal demonstrations. The main opposition party admits it cannot stop this.

But the president's divisive tactics could backfire. Mr Lee has promised to boost living standards, a rash pledge at a time when the world economy is stumbling. South Korea is also embroiled in a confrontation with Japan over a group of rocky islands called Dokdo (Takeshima in Japanese). The South Korean prime minister visited them this week to reiterate his country's claim. The government also announced three days of military exercises around the islands. With all this going on, the last thing the president needs is more divisiveness over beef.

Cambodia's election

Stability, sort of

Jul 31st 2008 | PHNOM PENH
From The Economist print edition

After a dirty election, the prime minister tightens his grip

Get article background

Reuters



Time not running out for Hun Sen

WHETHER Cambodia's general election on July 27th was a success or a travesty depends on what you compare it with. A team of European Union observers said it fell well below international democratic standards. Tens of thousands of opposition supporters were excluded from the electoral register. There was widespread impersonation of voters, plus the usual vote-buying and glaring pro-government bias by broadcasters.

However, the election was also the least violent since the United Nations-sponsored one in 1993 that marked the end of decades of civil war. The victory of the Cambodian People's Party (CPP) and its leader, Hun Sen, means Cambodia is set for a further five years of corrupt and inept government but also, probably, of continued stability and rising prosperity.

Preliminary results suggest the CPP won around 90 seats (up from 73) in the 123-seat national assembly. The main opposition leader, Sam Rainsy, believes his party won around 27, up from 24 last time. The big losers were Cambodia's once-powerful royalists. Divided and in disarray, the main royalist party, Funcinpec, shrank from 26 to perhaps just two seats; a splinter named after the exiled Prince Norodom Ranariddh did no better.

Though the Sam Rainsy Party (SRP) wants the world to refuse to recognise the outcome, diplomats in Phnom Penh, the capital, believe the CPP has genuinely gained popularity thanks to Cambodia's strong growth—10.3% last year, producing a boom in fancy office blocks and rural land prices. Mr Hun Sen also won some votes from his tough stance in an armed confrontation with Thailand over a patch of land near the ancient Preah Vihear temple, which a UN committee recently put on its "world heritage" list. The EU's observers said that given the scale of the ruling party's victory electoral fiddles seemed unlikely to have altered the outcome.

Until fairly recently Mr Hun Sen's critics had a tendency to die violent deaths. As he has felt surer of his position, politics has become more peaceful. Patronage and pilfering are rife and the justice system almost non-existent. But foreign donors fill many of the gaps—in particular, building lots of roads and other infrastructure. Roderick Brazier of the Asia Foundation, a think-tank, says the devolution of money and powers to local communes seems to be improving ordinary people's lives, and the appearance of a few capable technocrats in central government may help more.

Tired and angry after the election, Mr Sam Rainsy remains defiant. The collapse of the royalist movement, he says, means that now, "we are the only serious alternative. It makes the political game clearer." He argues that the SRP, hitherto an urban party, is gaining support in the countryside. But if he were to present a serious challenge, would Mr Hun Sen revert to his old brutal ways?

Afghanistan's army

Good news from Arghandab

Jul 31st 2008 | ARGHANDAB
From The Economist print edition

Afghan soldiers are better trained and happy to fight

AP



All kitted out and somewhere to go

"THERE is zero trust in the government but the ANA [Afghan National Army] is our only hope. They behave well with the people and are stronger than the Taliban." That was the pithy assessment of one tribal elder trudging back towards Arghandab district near Kandahar, the day after the largest operation so far by the fledgling Afghan army. It had taken just 24 hours from the first appearance of Taliban fighters for over 1,000 Afghan troops to deploy and drive them out of Arghandab.

After a slow start the army is at last emerging as a credible fighting force. In 2007 $7.4 billion went into training and equipping it and the police. Every week now, a *Kandak* (a 650-man battalion) finishes training and takes to the field. The army will reach its initial target of 80,000 early next year. On August 5th the first formal transfer of authority to Afghan forces is due to take place for the Kabul area.

The army looks very different from the ragged force of three years ago, when units sent to the south were losing 30% of their men through desertion. Desertion rates in Helmand are now only 7%; about half of all soldiers re-enlist. They are better equipped, too, with body armour, M-16 assault rifles and the latest model of Humvee armoured vehicle.

Good equipment does not guarantee success, of course. The army the Soviet Union equipped lavishly in 1989 succumbed swiftly to the mujahideen. Many think the ANA too small. But at least it has stomach for a fight. "They are aggressive and fight forward," says Captain Ray Dalzell, one of the sweat-stained British advisers in Attal, a new base the ANA built after sweeping up the Gereshk valley, an area of persistent Taliban activity. Others praise the ANA's speed across the ground and its ability to detect changing local opinion and mood invisible to foreign eyes.

But there are problems, too. The greatest, according to Major-General Robert Cone, an American in charge of helping rebuild the army, is a shortage of Western "mentors"—people seconded to help with technology, planning and logistics. Other problems are cultural. To the consternation of British NCOs, Afghan soldiers tend to see time between operations as a chance to catch up on sleep, not training. They resist carrying rations or ammunition on patrol, preferring to forage from villages. Corruption, on the other hand, seems to affect the army less than most Afghan institutions.



Ethnic divisions are also a worry, though the army strives to offset them. Battalion commanders are always a different ethnicity from their executive officer. Nonetheless Tajiks are disproportionately represented in the officer class and Hazaras and other smaller groups are under-represented. “I can’t get promoted to sergeant-major because I can’t pay the necessary bribes and I am just a Hazara,” claims one sergeant. “So I am leaving.” Half the army speaks Dari and the other half Pashto.

The army has the correct proportion of Pashtuns, the ethnicity from which the Taliban draws its strength. Unfortunately, they are overwhelmingly from the eastern provinces, the army’s historic recruiting grounds, rather than the south where the Taliban comes from. So the ANA, while vastly preferred to either Western troops or the venal police, still seems foreign in the south. “The ANA does not have good relations with us,” says Haji Mohammad Anwar, a member of Helmand’s Provincial Council. “The people like the behaviour of the ANA, but they are rented by foreigners.” Maybe so, but few can doubt the eagerness of those foreigners to hand over to the Afghan army as soon as they decently can. The ANA’s improvement must bring that day forward.

The Beijing Olympics

Five-ring circus

Jul 31st 2008
From The Economist print edition

News from the Forbidden Citius, Altius, Fortius

BEIJING'S grey skies began to clear briefly on July 27th, though the capital's **wretched air quality** continues to be a top concern of organisers as the opening of the Olympic games draws near. Chinese officials insist that cooler, drier weather and clearer skies will descend on the capital for the two weeks of the games, August 8th-24th.

Hot and bothered

The last batch of Olympic **tickets** went on sale, prompting a near riot. Tens of thousands queued up, pushed and shoved. The police waded in to restore order and roughed up journalists covering the incident. One reporter from Hong Kong was detained for hours, prompting an unusual official acknowledgment that the police might have overdone it. With more than 20,000 foreign journalists expected to cover the games, and 100,000 security personnel (plus a similar number of "security volunteers") on hand, there is every chance such problems will arise again.

Tough competitors

Iraq narrowly evaded a ban on taking part in the games. At an emergency meeting in Lausanne on July 29th, the International Olympic Committee (IOC) reversed an earlier decision to exclude Iraq's modest contingent. In June, the IOC had provisionally suspended the country because of political interference in its National Olympic Committee (NOC). Under a last-minute deal, Iraq agreed to elect a new, independent NOC by the end of November. "Last minute", however, was too late for some would-be Olympians, who missed registration deadlines; only two athletes—Haidar Nasir, a discus thrower, and Danma Hussein, a sprinter—will compete.

Asking a lot

"Beijing's air quality today…shows China's growth model of 'develop first and clean up later' is wrong and should be dropped as soon as possible." *Lo Sze-ping, Campaign Director for Greenpeace, China.*

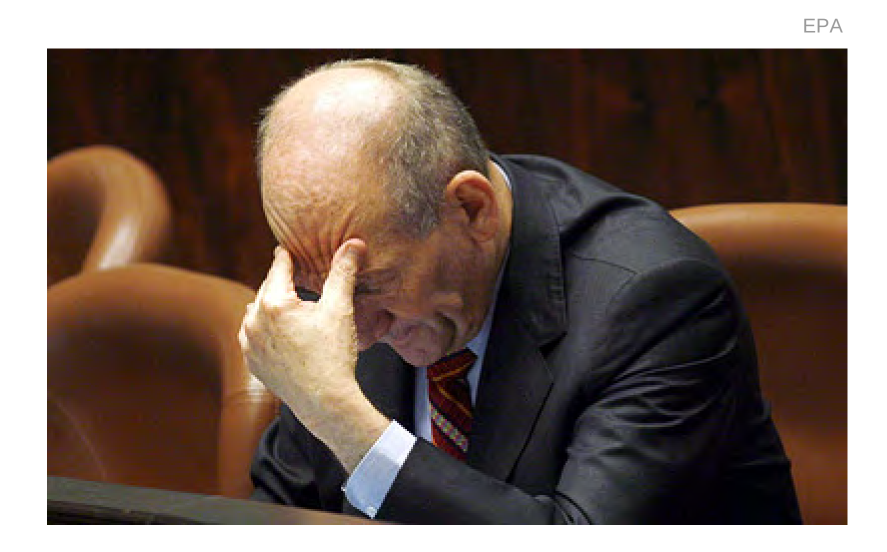
Israel

Ehud Olmert says he’ll go, at last

Jul 31st 2008 | JERUSALEM
From The Economist print edition

After months of suspense, Israel’s beleaguered prime minister announces that he will step down, probably in September. What next for his country?

EPA



FLOUNDERING beneath a welter of investigations into alleged corruption, Israel’s prime minister, Ehud Olmert, announced on July 30th that he would resign as soon as his Kadima party had elected a new leader in late September. The two front-runners to take over are his foreign minister, Tzipi Livni, and his transport minister, Shaul Mofaz. But the operatic slowness of the process means that Mr Olmert may still be running the show into next year. In any event, no matter who grasps Kadima’s helm, a general election may take place in the spring, when the opposition Likud party, led by the hawkish Binyamin Netanyahu, may be favoured to win.

Ms Livni or Mr Mofaz may have to haggle long and hard after September to rebuild a viable coalition. Kadima’s partners, emboldened by Mr Olmert’s tribulations, have been brazenly bucking parliamentary discipline; the government has recently lost vote after vote but has staggered along.

Mr Olmert’s reputation was irreparably eroded by the recent lengthy courtroom testimony of Morris Talansky, a New York businessman said to have made improper cash contributions to him for a decade, before he was prime minister. Allegations of double-billing for flights and hotels were also made. And there are long-running police inquiries into his appointments when he was minister of trade and into his purchase of a flat in Jerusalem, apparently at a knock-down price. Mr Olmert insisted his hands were clean. Yes, he made mistakes in his long years in politics, and regretted them. But they had been blown out of all proportion by “self-appointed crusaders for justice” bent on ousting him as soon as he had taken office.

He became prime minister in January 2006, after Ariel Sharon was felled by a stroke, and in March led Kadima, a party created by Mr Sharon just months earlier, to a narrow election victory. Kadima had emerged out of the rump of Likud as a result of Mr Sharon’s controversial unilateral withdrawal from the Gaza Strip. When Mr Olmert took over, he promised further sweeping withdrawals of Israeli settlements and troops from the West Bank. But his rule was ruined almost from the outset by his decision in July to go to war in Lebanon, where Israel in effect lost the contest to Hizbullah, a Lebanese Shia movement closely linked to Iran.

When Mr Olmert decided to launch a massive retaliation for a cross-border kidnapping by Hizbullah of two Israeli soldiers, he enjoyed wide support in parliament and in the country. The air force destroyed almost all Hizbullah’s longer-range missiles. Mr Olmert’s fatal error was to believe his chief of staff, a former air-force commander, who assured him that Hizbullah’s thousands of short-range missiles could

be dealt with in the same way.

A month later, these missiles were still raining down on the north of Israel, and support for the war had turned to recrimination and despair. Ground forces were eventually sent in, but too few and too late to find and destroy the missiles. The chief of staff and the then defence minister eventually succumbed to public anger and stepped down, but Mr Olmert hung grimly on. He resumed long-suspended negotiations with the Palestinian president, Mahmoud Abbas, but was too weak to make further unilateral pullbacks. More recently, he began indirect talks, through Turkish middlemen, with Syria.

In any event, a deal with Mr Abbas may look half-baked, because the Gaza Strip, a chunk of the Palestinians' would-be state, is in the hands of Hamas, the Islamist enemy of Mr Abbas, whose authority is anyway uncertain in much of the West Bank (see article). The talks with Syria have got only grudging blessing from the United States; Syria's leader, Bashar Assad, may rather wait for a new American president before entering into direct negotiation.

Still, Mr Olmert insists that in both negotiations agreement is closer than ever; he says he will vigorously pursue them as long as he remains prime minister. In his soon-to-step-down speech on July 30th, he skated over the Lebanon war but referred obliquely to Israel's bombing of an alleged nuclear facility in Syria last September.

It is unclear how much influence he will retain in Kadima. He loathes Ms Livni, who had previously tried to unseat him. But Mr Mofaz may find it hard to draw Mr Olmert's supporters keenly into his camp. A former army chief of staff and minister of defence under Mr Sharon, he is a lot more sceptical about the prospects of peace with the Palestinians than Ms Livni is. He is promoting himself as a safe pair of hands; she, who was briefly an intelligence officer, as Mrs Clean, who might conceivably strike a deal with the Palestinians.

The Gaza Strip

Reconciliation delayed yet again

Jul 31st 2008 | GAZA AND NABLUS
From The Economist print edition

Hopes that Palestinian rivals may settle their differences are dashed once again

THE two main Palestinian groups, Fatah and its Islamist rival, Hamas, have been doing their utmost in the past fortnight to ruin the prospect of co-operation, let alone reconciliation, any time soon. Yet the chances of Fatah, which runs the West Bank, sealing on its own a durable agreement with the Israeli government by the end of the year, as negotiators previously sought, also looks increasingly unlikely. Indeed, with the Palestinians still bitterly divided and the Israeli government led by a prime minister who is about to step down with no successor yet chosen, the outlook for an early peace is bleak. At best, negotiators are relying on a new American president to inject a fresh dose of hope into the process.

Since July 25th the Palestinians have been engaged in one of their fiercest bouts of internal repression and counter-repression since Hamas's violent takeover of the Gaza Strip just over a year ago. The latest outbreak was sparked by a bomb at a beach café near Gaza City which killed five Hamas people and a six-year-old girl. A hitherto unknown militia group, the Al-Awda Brigades, said to be aligned with Fatah, claimed responsibility, but it was uncertain who the real culprits were.

Hamas officials in Gaza said that the perpetrators were Fatah-linked and should be "hanged in public in the square". Fatah officials condemned the deed and blamed Hamas in-fighting. Some Hamas officials pointed the finger at a former Fatah strongman in Gaza, Muhammad Dahlan, who is reviled by Hamas people for being on good terms with the Israelis and Americans and was ousted from Gaza, along with Fatah's security forces, in June last year. A senior Hamas man said the bombers were operating with American and Israeli help in order to keep the Palestinians divided and push Gaza into chaos. "The real target was the reconciliation," he said.

The bombing set off a wave of arrests of Palestinians by Palestinians in their separately-run territories. Hamas detained at least 160 Fatah people in Gaza, after which Fatah arrested scores of Hamas ones in the West Bank towns—including at least 50 in Nablus, 20 in Jenin and 15 in Tulkarm; Hamas puts the figure at 200. Many on both sides have since been freed. But accusations of mistreatment and torture abound. Al-Haq, an independent Palestinian human-rights lobby, says that 20-30% of the 1,000-odd detainees held by each side in the past year have been tortured, with both factions at fault. A report this week by Human Rights Watch, a New York-based group, says that torture by the Palestinian factions has sharply increased.

Getty Images

Hamas invariably accuses Fatah of truckling to Israel and acting as its cat's-paw in the West Bank. In the past month, scores of Hamas-linked charities and businesses have been closed down, especially in Nablus, once the territory's biggest commercial centre. While the Fatah-run security forces, which the Americans have been trying to spruce up, patrol spasmodically by day, Israeli forces often make raids by night. Last month they swooped on Nablus's biggest shopping mall and ordered it to be closed by mid-August, on the ground that it was Hamas-controlled; some locals said a Fatah-backed businessman wanted to kibosh the commercial opposition. In Gaza this week Hamas closed down 40-odd institutions close to Fatah.

Renewed efforts had recently been made, mainly under Egyptian mediation, to rebuild a Palestinian unity government. But talks have stalled. On a recent visit to Damascus, Syria's capital, President Mahmoud Abbas, who heads Fatah, failed to meet the Hamas leader, Khaled Meshaal, who is based there. Hamas accuses the Americans of skewering the Palestinians' efforts to accommodate each other. "We have no problem with talking to Fatah," says a spokesman in Gaza. "But there is an American veto against [Fatah] meeting Hamas." In

any event, Fatah says a condition for reconciliation is that Hamas should relinquish its control of Gaza and allow elections to be held there.

Gaza is unlikely to slide back into the chaos and factional killing of a year ago. As a Fatah man dolefully puts it, “only one side has the guns”. And a truce between Hamas and Israel in the Gaza area, agreed upon in early June, is still more or less holding. But as the father of Sareen Safadi, the six-year-old killed in the Gaza bomb, hands out plates of food to visitors offering their condolences, nothing is resolved. His family, he insists, has no political affiliation; he does not care who killed his girl. “We blame no one. It was an act by criminals. It was the will of Allah.”



Killed by their brothers?



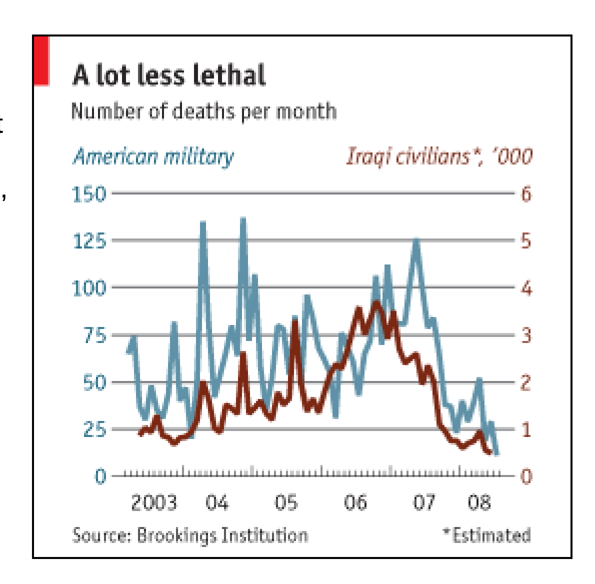
Iraq

Security better, politics still stuck

Jul 31st 2008
From The Economist print edition

The politicians are still failing to take advantage of the lull in the violence

THE mood in Baghdad and most parts of Iraq is an odd mixture of hope, frustration and nervousness. Despite the occasional mass-murderous suicide bomb, such as the four that killed at least 50 people in Baghdad and the disputed city of Kirkuk on July 28th, the death toll is continuing mercifully to slide downwards (see chart); the month of July will probably have witnessed the fewest American military combat deaths—eight, as *The Economist* went to press—since the war began five years ago.



The month's Iraqi civilian toll, though harder to count and still wretchedly high, will also be one of the lowest since the insurgency got going in 2004; some 500-odd violent civilian deaths were reported in July, compared with a tally of 3,700 at the height of sectarian mayhem two years ago. Irrespective of the different plans of the two American presidential candidates, a reduction of American troop numbers is also happening steadily, from 171,000 in October to 145,000 at last blush. At the same time, the size of the Iraqi forces is creeping up, from 115,000 two years ago to 229,000 today. This week the province of Kadisiya, south of Baghdad, became the tenth out of 18 to come under Iraqi, rather than American, operational command.

The Iraqi army, alongside the Americans, recently began a big push against al-Qaeda-linked insurgents in the mixed-sect Diyala province, perhaps now the bloodiest, just north-east of Baghdad. Basra and Anbar provinces, in turmoil a year and a half ago, are quiet. The city of Mosul, a bloody trouble spot earlier this year, is still sharply divided, mainly between Sunnis to the west of the Tigris river and Kurds to the east, but is broadly coming under state control. Autonomous Iraqi Kurdistan remains calm and increasingly prosperous.



Yet political progress, though it quickened earlier this year under the tightening grip of the prime minister, Nuri al-Maliki, has not matched the improvements in security. Indeed, as the burning-hot summer holiday begins (parliament is about to go into recess), to be followed by the fasting month of Ramadan that will last throughout September, there is a worrying risk that the politicians will again muff their chance to make a breakthrough towards a real accommodation between Iraq's competing sects and

groups.

An oil law has still not been passed that would allow for much-needed investment and should enable the Kurds to have a measure of control over management and exploration contracts in their area. But the worst recent hiccup is over a provincial elections bill that was all but agreed; it is crucial for bringing the hitherto disaffected Sunni Arabs back into the peaceful political arena by empowering them in local government in areas where they predominate, through elections originally due to be held in the autumn but now likelier in January at the earliest. This week, thanks partly to the Turkmen of Kirkuk overreaching themselves at the behest of their Turkish sponsors, the Iraqi president, Jalal Talabani, who is a Kurd, felt obliged to veto a bill with some last-minute changes to it.

If parliament fails to pass an amended version within a few days, the elections may have to be put off until next spring or even later, thus increasing the risk that the Sunnis will lose patience because of being denied a voice in government. A main reason for the relative peace along the Euphrates valley is the *Sahwa* (Awakening) of Sunni tribes, who had turned against al-Qaeda in their area; at least 103,000 of them, previously helpful to the insurgents, have been on the American payroll. But too few have been inducted into the formal Iraqi security forces, because the mainly Shia-run national government is wary of them. If they grow frustrated, they could turn again against the new order.

Meanwhile Mr Maliki, no longer considered weak and pusillanimous, has continued to strengthen his own position. While the triangular tussle between Sunnis, Shias and Kurds has at least a chance of being settled, a struggle for dominance between the Shia factions is proceeding apace. Mr Maliki, though lacking much of a base in his own small Dawa party, is increasingly putting his own men in top spots in the security forces and key ministries. The leader of his supposed allies in the Islamic Supreme Council of Iraq, the ailing Abdel Aziz al-Hakim, seems to be ceding ground. And the mass movement, attractive to the Shia poor, which is loyal to a fiery cleric, Muqtada al-Sadr, appears for the moment to be biding its time.

Mr Maliki has burnished his nationalist credentials by negotiating toughly with the Americans over a “status of forces agreement”, known as the SOFA, that would enshrine Iraq’s sovereignty in such prickly matters as American military bases, Iraqi judicial authority over foreign private contractors, America’s power to detain alleged insurgents (there are currently more than 21,600 of them), and America’s ability to launch military operations off its own bat, particularly against other countries (read: Iran).

Lounging on the old chaise longue

A new SOFA was meant to have been agreed on by the end of July but will almost certainly be put aside, probably until a new American president takes over; in the meantime, a memorandum of understanding is likely to be signed in lieu of the previously renewed UN mandate. Mr Maliki has sounded serious about demanding the rapid exit of American forces—though he would doubtless change his tune if his regime came under renewed threat.

So a detailed new deal will probably await the next American president. In fact, the two men’s demands—and those of Mr Maliki—may not be so far apart. Barack Obama sticks to his contention that American troops must be out by the end of May 2010, but has given himself some flexibility to keep some American troops in Iraq for diverse reasons depending on circumstances. John McCain’s stand—“as long as it takes”—has been softened by his suggestion that, all being well, 2013—or even earlier—may be realistic. Mr Maliki may well adjust his demanded date according to his own fortunes. And if he could speed up political advances while continuing to improve security, the notion of an American exit within a few years with a modicum of dignity—and a chance of peace for Iraqis—may no longer be fanciful.



Nigeria

Cults of violence

Jul 31st 2008 | PORT HARCOURT
From The Economist print edition

How student fraternities turned into powerful and well-armed gangs

A YOUNG man whispers a confession: as a university student, he killed six or seven of his peers. He cannot be sure of the number, since his shots were fired in gun battles. He intimidated professors, burned their cars, and helped kidnap—briefly—their children to force them to give good marks to certain students. He did it all as a member of a campus cult. When he renounced his membership, he got death threats and moved to another city, where he lives today.

Nigeria's university system used to be the finest in west Africa, but today's classes are overcrowded, buildings are crumbling and the curriculum has remained unchanged for years. The cults emerged from the shambles. Having started life as confraternities for the most academic students, they have deteriorated into gang violence. The Exam Ethics Project, a lobby group, says that inter-cult violence killed 115 students and teachers between 1993 and 2003. The real number may be much higher.

The situation is particularly bad in Port Harcourt, the capital of Rivers State, the country's wealthiest and the centre of the oil industry. Here cults have spilled beyond the campus walls to mix with the political militants, thugs and crooks responsible for a violent insurgency in the Niger Delta. Most city residents believe that nearly all of today's most prominent militant leaders were or still are cult members.

How did the cults become such a problem? Wole Soyinka, a Nobel prizewinner for literature, helped found the Pyrates Confraternity, the first such group, in 1952 at the elite University of Ibadan. Slowly, splinter groups emerged: the Black Axe, the Klansmen Konfraternity, and countless others. It was harmless fun to begin with. But military leaders of the 1980s and 1990s saw the groups' growing membership as a chance to confront the leftist student unions, often aligned with pro-democracy movements. So the confraternities were given money and weapons. They turned against student activists—and against each other. By the mid-1980s, violence had become so fierce that Mr Soyinka tried unsuccessfully to disband his former creation.

As their strength grew, the cults' influence on the universities became more malign. They exacerbated the corruption that had already bred in unmanageably big classes and deteriorating facilities. Today, older students and alumni flood campuses in the first weeks of the new academic year to recruit for the cults. Omolade Adunbi, an anthropologist, says that some students, fearing that they are going to be failed in exams, believe the only way to protect themselves is to belong to a cult where they can "harass professors".

Ban them—if you can

Rivers State outlawed cultism in 2004, setting up rehabilitation committees and special courts to try those accused of membership. But the law has had little effect, since politicians play a big part in keeping the groups rich in cash and arms. "In Rivers State everybody is fighting for the soul of governance in the state, and you need everything—everything—to get it," says Professor Chiedu Mafiana, a director at the National Universities Commission. Politicians use the students to intimidate opponents, he says. "And so if a student has gone to commit some level of atrocities on behalf of a political group and comes back with good money, another person joins the bandwagon in order to make money for himself." Though the cults charge membership fees of between 10,000 ($85) and 30,000 naira a year, the boys can expect to make a profit on the streets.

The pay-offs after university can be no less rewarding. With a well-connected alumni network, students hope that their cult membership will win them a job in a country where most graduates are unemployed. Alumni of the Vikings Confraternity, for example, claim at least 11 members of the Rivers State House of Assembly.

Some progress has been made in tackling the cults at the Rivers State University of Science and Technology, thanks to 200-odd security officers, covert surveillance and student informants. For the first time in over a decade there were no gunshots on the campus last year. Yet many students say the violence has not ceased; it has just moved to the streets. Recently, a new vice-chancellor took over the university. Asking him to do the job, the Rivers State governor, Rotimi Amaechi, put the task simply: “Go on a rescue mission for me.”





The Red Sea

Can it really be bridged?

Jul 31st 2008 | DJIBOUTI AND DUBAI
From The Economist print edition

A fantastic plan to span the Red Sea's troubled waters is raising eyebrows

ONE OF Osama bin Laden's many half-brothers, Tarek bin Laden, this week signed a deal with tiny Djibouti which may—or may not—mark the start of one of the world's boldest engineering projects. Djibouti's president, Ismael Omar Guelleh, promised Mr bin Laden 500 sq km (193 sq miles) of land to start building Noor City, the first of a hundred "Cities of Light" the vast Saudi Binladen Group plans around the world. "A hope for all humanity, the first environmental city of the 21st century," gushed the promotional video at the signing. The audience, mostly American military contractors near retirement age, clapped enthusiastically. Engineers elsewhere say the scheme is a fantasy.

Mr bin Laden, his sons, and their front man, Muhammad Ahmed al-Ahmed, a Saudi former shipping executive, say they have already invested "hundreds of millions of dollars" in a plan to build cities on either side of the Bab al-Mandib (Gate of Tears) strait at the foot of the Red Sea. Construction is supposed to begin next year, after the terms of sovereignty for the tax-free metropolises have been agreed. By 2025, says Mr Ahmed, Djibouti's Noor City will have 2.5m people and its Yemeni twin 4.5m. Several million jobs will be created. An airport serving both cities will, he says, attract 100m passengers a year. A 29km bridge across the strait will connect Arabia and Africa by road, rail and pipelines, its towers among the tallest on earth. The cost? A mere $200 billion or so.

Yet oddly, aside from Djibouti's, no African government officials were to be seen, no architect, no technical adviser to explain how the cities could run on renewable energy, and barely an engineer. None of the Noor City delegation noted that blazing hot Djibouti, with 800,000 people, is already acutely short of water and imports nearly all its food, that 150,000 of its people are "facing imminent starvation", according to the UN's World Food Programme, and that millions more are famished in next-door Ethiopia. Mr Ahmed also brushed aside any worry about instability in Yemen, where an al-Qaeda suicide bombing on July 26th targeted the country's police. Yet at the last moment Yemen's government refused visas to journalists travelling with Mr bin Laden.



Mr Ahmed has worked for DynCorp, an American military contractor. So had one of the project's main

managers, Michel Vachon, before moving to L3 Communications, a contractor often employed by the American government. Another manager, Dean Kershaw, spent 29 years in America’s forces; some others had served in the Bush administration. Armed American special-forces veterans now apparently employed as security guards by L3 chaperoned journalists. All part of an American plan to help secure the Suez shipping lane or to strengthen the hand of friendly forces in Yemen? “Absolutely not,” said Mr Kershaw. “The [American] government has vetted us, but they’re not behind us.”

Whatever the reality, the presence of arms manufacturers in the consortium, including Allied Defense Systems and Lockheed Martin, will fuel conspiracy theories among Arabs. Mr Ahmed says investors in Djibouti’s Noor City have the chance to “be part of modern humanity” by creating the “financial, educational, and medical hub of Africa”. Africans may wonder why the hub is not being built in a bit of Africa where more Africans live and which has food and water.

Unlike the Gulf States, which financed most of their development from oil revenue, Djibouti and Yemen are too poor to provide more than scrubland. Mr Ahmed says his firm will finance a new railway through Yemen to connect the new cities with Dubai. He is vaguer about Africa, where a motorway and railway would have to be built to Addis Ababa, Ethiopia’s capital, and on to Kenya’s Nairobi and Sudan’s Khartoum, if it is really to help perk up the continent’s economy.

Turkey

A narrow scrape for democracy

Jul 31st 2008 | ANKARA
From The Economist print edition

The judiciary shrinks from banning the ruling party

AFP



BY THE slimmest of margins, Turkey has averted the worst political crisis in years, perhaps in decades. On July 30th the country's constitutional court turned down an attempt by state prosecutors to ban the ruling Justice and Development (AK) Party on the ground that it was seeking to introduce elements of Islamic law in defiance of the state's avowed secularism.

A majority of six of the 11 constitutional court's judges had, in fact, voted to shut down the party. But to pass such a measure required the support of seven judges, so the court settled on the minority view of four others—including the chairman, Hasim Kilic—only to impose a fine. This is expected to be the loss of half of AK's state funding, which amounted to 47m Turkish lira ($40m) last year.

"We think that this political party should take the necessary message from this verdict," said Mr Kilic, his voice tight with emotion. In parliament, AK deputies embraced and clapped as they watched the judge's televised press conference. The European Union's enlargement commissioner, Olli Rehn, called it "a good day for Turkey and for Europe".

The verdict should help end the political upheaval that has gripped Turkey since March, when the chief prosecutor asked the court to bar the prime minister, Recep Tayyip Erdogan; the president, Abdullah Gul; and scores of other named officials from politics for five years. They were accused of undermining the secular republic created by Kemal Ataturk 85 years ago out of the ruins of the Ottoman empire.

To many, the prosecution was an attempt at "a judicial coup"—perhaps the most serious assault on Turkey's turbulent democracy since the army seized power from elected politicians in 1980. Despite the subsequent restoration of democracy, the army demanded, and obtained, the resignation of an Islamist-tinged prime minister, Necmettin Erbakan, in 1997.

The army's hand has been apparent in the latest manoeuvring against AK. But this time Turkey's meddlesome generals have been humiliated. Despite their displeasure AK was re-elected with an enhanced majority in 2007. The army failed to block the appointment of Mr Gul as president, despite an internet message that appeared to threaten military intervention. Short of such a hard coup, the army has no cards left to play.

That said, the court's decision is not an outright victory for AK, despite its supporters' excited chants of "we will continue". Ten of the constitutional court's judges agreed that the party was guilty of anti-secular activity; they disagreed only on the punishment.

The verdict should be seen as a stern warning to the party not to push its divisive religious agenda. Earlier

this year the party forced through a law allowing girls to wear the Islamic headscarf at university, which was later struck down by the constitutional court. Secular Turks view the headscarf as a symbol of Islamic militancy. Even Mr Erdogan's allies agree that he should have done more to appease the concerns of secularists.

Within hours of the court's verdict, Mr Erdogan spoke of the need to strengthen unity and promised to abide by Ataturk's principles. "The AK party, which has never been a focus for anti-secular activities, will continue to stand up for the fundamental values of the republic," he said. He also declared that his government would henceforth pursue full membership of the EU. Critics point out that he made the same promises on the night of his electoral victory last year. Having outmanoeuvred the generals yet again, will he abide by his pledges this time?

Sources close to the prime minister maintain that he will. A key test will be whether he reshuffles the cabinet. A first step, say secularists, would be get rid of the controversial education minister, Huseyin Celik, who is accused of seeking to inject Islam into school textbooks and who was among the 70 AK officials for whom the chief prosecutor had sought bans. An even greater test will be whether Mr Erdogan consults the opposition in any future effort to rewrite the constitution, an authoritarian document drawn up by the generals after the 1980 coup.

It will take some time for the country fully to absorb the meaning of this week's verdict. Until recently it seemed virtually certain that the court would rule against AK. But opinion began to shift over the past month as the potentially disastrous effects of a ban finally seemed to sink in among those pushing for it.

The European Commission had threatened to suspend Turkey's accession talks had AK been shut down. America made its displeasure known, albeit more mildly. The global credit crunch, moreover, has hit emerging markets. Turkey, with its enormous current account deficit, looks more vulnerable than most.

So for more than one reason, Mr Erdogan has much to gain by focusing on pushing the liberal political and economic reforms that marked his earlier years in office. Mr Rehn said Turkey should now seek to regain the time wasted by the crisis, and "resume with full energy its reforms to modernise the country".

Some believe the judges' change of heart may be linked to another, equally sensational, case that has been launched against the so-called Ergenekon conspirators. Prosecutors in Istanbul claim to have uncovered a plot by a group of ultranationalists—among them retired generals, convicted murderers, pro-secular journalists and academics—to overthrow AK, which draws its support from a rising class of pious Turks and frightens many secular ones.

Some 80 alleged conspirators have been arrested. Their purported plan was to incite chaos through a string of assassinations and bomb attacks designed to provoke the army to intervene. There is widespread speculation that Ergenekon may have been behind this week's bomb attack in Istanbul that killed 17 people, including five children and a pregnant women. But security officials say this was more likely the work of separatist Kurdish guerrillas of the Kurdistan Workers' Party. Either way the incident was a chilling reminder of the potential turmoil that could arise from the lack of a stable government.

The biggest reason for the court's decision may be rooted in hard parliamentary arithmetic. Even if AK had been shut down and its leading members banned, some 300 of its deputies would have retained their seats as independents, regrouped under a new name and formed a new government alone. Recent opinion polls consistently suggest that AK retains a big lead over its secular rivals.

Hopes within pro-secular circles that the threat of closure would prompt mass defections from the party never materialised. "The secularists appear to have finally grasped that the only way to get rid of the AK is at the ballot box," notes an European diplomat. If so, that is a huge step forward for Turkish democracy.

Cyprus

Thirst for peace

Jul 31st 2008 | NICOSIA
From The Economist print edition

Hopes rise on a divided and parched island



FIRST the good news. The Greek- and Turkish-Cypriot presidents will start serious talks on reunifying the divided island on September 3rd. Demetris Christofias and Mehmet Ali Talat, both old-fashioned left-wingers, have made clear they want a settlement.

Alexander Downer, the tough-talking Australian former foreign minister who is the United Nations envoy, says the meeting offers the best chance in years of resolving the intractable dispute that has bedevilled the workings of both the European Union and NATO.

A UN–drafted deal in 2004 was overwhelmingly backed by Turkish Cypriots but rejected by Greek Cypriots in separate votes. As a result Cyprus joined the EU as a divided island. This time, say UN officials, the two presidents will be in charge of the agenda.

There are lots of obstacles to a settlement. It will be hard, for example, to agree on a timetable for pulling out about 30,000 Turkish soldiers from the north, decide how many settlers from Turkey could stay on, and deal with property claims. Any deal would need the approval of Turkey.

In the meantime, there is bad news to grapple with. Cyprus faces the worst water shortage in memory. In Nicosia, taps can be turned on for just six hours every two days. Mismanagement as well as a prolonged drought are to blame.

The previous government cancelled plans to build two more desalination plants to serve the growing number of foreign home-owners. Now Mr Christofias has decided to spend €40m ($62m) to ship expensive drinking water from Greece. But the ship-to-shore pipeline at Limassol proved too short, so the first tanker-load had to be dumped.

One solution would be to build a pipeline to ship water from southern Turkey, which has abundant resources. A dream project, perhaps, for a reunified Cyprus?

Divorce

Divorce without borders

Jul 31st 2008
From The Economist print edition

A simpler way to part ways

Illustration by Peter Schrank



SHE was French; he was English; they had just moved to London from Paris. When he found out about her affair, she begged for a reconciliation. He was more ruthless: the same afternoon, he filed for divorce in France, one of the stingiest jurisdictions in Europe for the non-earning spouse and where adultery affects the court's ruling. Had she filed first in England her conduct would have been irrelevant, and she would have had a good chance of a large share of the marital assets, and even maintenance for life.

International divorce is full of such dramas and anomalies, so the natural response of policymakers is to try to make things simpler and more predictable. But the biggest attempt in recent years to do just that, in a European agreement called Rome III, has just been shelved. Instead, several EU countries are now pressing ahead with their own harmonisation deal. Many wonder if it will work any better.

At issue is the vexed question of which country's law applies to the break-up of a mixed marriage. The spouses may live long-term in a third country and be temporarily working in a fourth. The worst way to sort that out is with expensive legal battles in multiple jurisdictions.

The main principle at present is that the first court to be approached hears the case. Introduced in 2001, this practice has worked well in preventing international legal battles, but has made couples much more trigger-happy, because the spouse who hesitates in order to save a troubled marriage may lose a huge amount of money. Rome III aimed to remove the incentive to go to court quickly. Instead, courts in any EU country would automatically apply the local law that had chiefly governed the marriage. This approach is already in force in countries such as the Netherlands. A couple that moved there and sought divorce having spent most of the marriage in France, say, would find a Dutch court dividing assets and handling child custody according to French law.

That works fine among continental European countries where legal systems, based on Roman law, leave little role for precedent or the judge's discretion. You can look up the rules on a website and apply them. But it is anathema in places such as England, where the system favours a thorough (and often expensive) investigation of the details of each case, and then lets judges decide according to previous cases and English law.

Another snag is that what may suit middle-class expatriates in Brussels (who just happened to be the people drafting Rome III) may not suit, for example, a mixed marriage that has mainly been based in a country, perhaps not even an EU member, with a sharply different divorce law. Swedish politicians don't like the idea that their courts would be asked to enforce marriage laws based on, say, Islamic *sharia*.

The threat of vetoes from Sweden and like-minded countries has blocked Rome III. But a group of nine

countries, led by Spain and France, is going ahead. They are resorting to a provision in EU rules—never before invoked—called “enhanced co-operation”. This sets a precedent for a “multi-speed” Europe in which like-minded countries are allowed to move towards greater integration, rather than seeking a “big-bang” binding treaty that scoops up the willing and unwilling alike. Some countries worry that using enhanced co-operation will create unmanageable layers of complexity, with EU law replaced by multiple ad hoc agreements.

The real lesson may be that Rome III was just too ambitious. A more modest but useful goal would be simply to clarify the factors that determine which court hears a divorce, and then let that court apply its own law. David Hodson, a British expert, proposes an international deal that would start by giving greatest weight to any prenuptial agreement, followed by long-term residency, and then take into account other factors such as nationality. That would then make it easier to end marriages amicably, with mediation and out-of-court agreement, rather than a race to start the beastly business of litigation.

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Romania

Mr Too Clean?

Jul 31st 2008 | BUCHAREST
From The Economist print edition

An anti-corruption crusader faces the sack

FIGHTING corruption in a country that tolerates it is a lonely job, and Daniel Morar may not have his for much longer. Intensely disliked by most of Romania's politicians and vilified in the media, he reaches the end of his term as head of the Romania's anti-corruption agency on August 12th. A government announcement on his future—and likely replacement—is expected imminently.

If so, Romania's hottest political issue will become an international one. A European Commission report on July 23rd criticised Romania's lacklustre effort against wrongdoing, but did not impose sanctions as it did against Bulgaria. It praised Mr Morar's agency, and a spokesman says his status is a "test case" of Romania's readiness to curb high-level corruption after joining the EU in 2007.

The Romanian parliament, however, does not share this admiration. It uses its veto to prevent Mr Morar's hottest cases from going to court. And of the 109 cases that were prosecuted in 2007, only 25 resulted in prison sentences, mostly for the minimum three years, or (with mitigating circumstances) even less.

Critics say that Mr Morar is pursuing political vendettas on behalf of his backers, chiefly Romania's president, Traian Basescu, whose supporters are the main opposition Democratic Party in parliament. Mr Morar's agency has indeed chiefly gone after politicians from other parties; but it has prosecuted some important figures in Mr Basescu's camp too.

Mr Morar's difficulties are a symptom of something else: a culture in which corruption does not equate with disgrace. Transparency International ranks Romania as the most corrupt EU country. Bribery is endemic, typically to secure medical treatment or teachers' favours.

At an off-the-record seminar organised by a German think-tank recently, judges said punishing corruption severely would be hypocritical and harsh. The Romanian language has no precise word for "accountability".

High technology in Russia

Dubna's tale

Jul 31st 2008 | DUBNA
From The Economist print edition

Russia is trying to build a high-tech economy, but red tape is strangling it

LIKE pagan gods, two giant statues of Stalin and Lenin once faced each other across the canal linking the Volga and Moskva rivers. Built in the 1930s partly with gulag labour, the canal is described in a Soviet encyclopedia as "a wonderful architectural ensemble of a new socialist type, reflecting the creative might of the Soviet people inspired by the great ideas of building communism". Soon after Stalin's death his statue was blown up. But Lenin still towers over Dubna, a model scientific town that once exemplified the Soviet Union's achievements in nuclear physics.

Now Dubna wants to stand for Russia's high-tech diversification. It has recently been designated a free economic zone, in which Russian high-tech companies are exempted from customs duties and pay lower taxes. A new town, designed by British architects, is being built on the Volga's left bank. Russia hopes that Dubna will turn into a Silicon Valley—or at least a Bangalore. Anatoly Karachinsky, head of Russia's biggest IT company, IBS, plans to move in hundreds of his programmers.

Dubna was built after the war as a closed town. Following Stalin's death it became the home of an international institute for nuclear physics, in which other Warsaw Pact countries were also members. This was the Soviet answer to the European nuclear-research organisation, CERN, that had just opened in Geneva. On the one hand it was closely guarded by the KGB (Dubna also had a military-equipment plant and a rocket construction office). On the other it offered scientists and engineers liberties and privileges that most Soviet citizens could only dream of.

The end of the Soviet Union reduced funding for science to a twentieth of its former budget. Yet Dubna's research institute survived. "The science survived plagues and wars, why should it not have survived the collapse of the Soviet Union?" asks Yuri Oganesyan, head of the nuclear-reactions laboratory. Even when the cash dried up, experiments went on. Indeed, the 1990s were productive, bringing the discovery of new super-heavy nuclei, the opening of a university and the rebuilding of an accelerator. "It may not be beautiful, but it is the most powerful one in the world," says Mr Oganesyan, pointing optimistically to a vast installation of magnets and tubes.

Unlike most Russian research institutes, Dubna lost relatively few scientists to the West. Even more unusual was the survival of its construction offices and military plants. The criminal gangs that rampaged through Russian industrial towns in the 1990s stayed away from Dubna, which was protected by the security services. And the economic shock of transition, says Valery Prokh, Dubna's dynamic mayor, was offset by the growth of small businesses. "We have removed all the barriers, and in two years registered 2,000 new companies, of which 700 are still working today." One such business built the first commercial accelerator in Russia, using it to make filters that separate blood plasma from red cells.

Last year the then President Vladimir Putin declared that "speedy development of fundamental science is becoming a necessary and basic condition for the modernisation of the Russian economy and winning a leading position in the world." After years of high oil prices, money is again no object: in 2007 Russia put 130 billion roubles ($5.5 billion) into a state corporation for nanotechnologies that is being likened to the Manhattan Project. Even China, which quit Dubna after Khrushchev's denunciation of Stalin in 1956, has been lured back to the nuclear institute.

But the big problem for high technology in Russia is neither money nor ideas. It is the country's all-pervasive bureaucracy, weak legal system and culture of corruption. This may explain why the nanotechnology corporation has so far found only one project to invest in (and that is registered in the Netherlands). The share of high-tech products in Russia's exports is only 0.6%, "a shameful rate" according to Vladimir Fortov, a member of the Russian Academy of Science. Over the past 15 years, he says, Russia has not brought to the market a single significant drug. The average age of Russia's scientists is well over 50. One of the main commercial activities of Russian research institutes is leasing or selling their property and land.

Scientific inventions tend to be developed abroad. The chain that turns a scientific innovation into a marketable product simply does not exist, says Mr Fortov. And the key to creating it, he argues, is not setting up state corporations, but unshackling the system from bureaucracy and letting private companies operate freely. “We have tried everything else and we know it does not work,” he concludes.

Bring out your models

Jul 31st 2008
From The Economist print edition

The economic slowdown is testing all of Europe's cherished economic philosophies

Illustration by Peter Schrank



DURING the plague of 1665, Londoners sought to avoid infection by sniffing flowers and herbs, clearing deadly "miasmas" with smoke, killing cats and praying for neighbours whose sins were thought to have brought divine wrath. Only later did the horrid understanding dawn that nobody was immune.

Something of the same mood is starting to grip the European Union. One by one, countries across the block are in danger of succumbing to the global economic downturn (see article). A big claim was made for the "European social model"—actually several different models—during the recent years of benign growth: that European countries generally tempered the efficiency of the markets with a commitment to social justice and equality that put places like America to shame.

If that claim was made of Europe's models on the way up, it seems reasonable to study how they fare on the way down. The 15 EU nations that use the single currency—the euro area—offer an additional experimental advantage. Because they all share one currency and one monetary policy, an important variable has been taken out of the equation. Countries can no longer devalue their way out of trouble, for one thing. Instead, their underlying competitiveness and resilience is going to be put to the test.

A widely read 2005 study by Bruegel, a think-tank in Brussels, divides long-standing members of the EU into four groups: Mediterraneans, Continentals, Anglo-Saxons and Nordics. Two criteria were used to judge each: their success at getting lots of people into work and their ability to keep citizens out of poverty.

The author, André Sapir, found that Mediterranean countries (eg, Greece, Spain and Italy) fail on both counts. Their social spending is skewed towards old-age pensions, and employment policies are focused on making it hard to fire people already in work. The result is low employment rates and a poor record of helping people escape poverty.

Continental countries (France, Germany, Belgium and the like), with their generous welfare systems, are good at helping people avoid poverty, but less good at getting them into work. The Anglo-Saxons (Ireland and Britain) have high employment rates but lots of inequality. Only the Nordics (Denmark, Finland, Sweden, plus the Netherlands) are hailed as combining the best of both worlds. The tough love of Danish "flexicurity" has won special praise in recent years, thanks to its apparent success at protecting workers (with things like welfare payments and government retraining schemes), rather than the jobs they currently hold (it is rather easy to hire and fire Danes).

Three years on, at least one country from each of Professor Sapir's four groups is in serious trouble. Denmark (an honorary member of the euro zone, with its krone firmly pegged to the single currency) recently became the first EU state to enter a formal recession, thanks in part to a housing bust. The bursting of property bubbles is also causing misery in Ireland and Spain, with an estimated 1.5m unsold homes in Spain alone.

In France the housing market is looking soft and almost every index of French economic confidence is plunging, including one particularly important one—household spending on food. Underlining the gravity of the crisis, *Le Monde* reports that French holiday-makers are eating sandwiches (a wretched English invention) instead of decent leisurely lunches this summer.

Even Germany, which never underwent a housing boom, is reporting its lowest levels of business confidence since 2001. This is bleak news given that Germany pulled off some painful reforms during the boom years—controlling state spending, restructuring big companies and holding down real wages.

Such diversity points to two immediate lessons: macroeconomic cycles matter more than politicians will admit, and the slowdown is not all about Anglo-Saxon sinfulness. When the credit crunch hit Ireland and Britain, the response from much of Europe was tut-tutting about "contagion" from America to other countries tempted by the quick profits of "financial capitalism". *Schadenfreude* does not do justice to the mood of EU officials and ministers as they watched Britain's prime minister, Gordon Brown, struggle with his country's first bank run in a century after years spent lecturing Europeans about deregulation.

But Professor Sapir, for one, stands by his calls for structural reforms in Europe. He argues that talk of "contagion" has been left behind by events. All manner of financial institutions are now in trouble, not just those in Anglo-Saxon countries. To that must be added rising inflation. "In a sense, it would be easier if everything were contagion," he says. Countries with big financial sectors have so far suffered more, he concedes, but that is because they are intrinsically more volatile, not because their economic model is based on fraud and illusion.

The real economic test

If Europe's problems are not only caused by the excesses of financiers (though some bad and stupid behaviour cannot be denied), what can the model-watchers learn from a wider crisis? One question is whether the countries whose policies they admired during the good times are more resilient in hard times.

Denmark's model of kindly rigour is still delivering extremely low unemployment, despite negative growth. Tell Danes on the street that they are in recession, and they will look at you strangely, says Torben Andersen of Aarhus University. The real test of the Danish economy may not be whether it avoids recession, but its determination to recover from such a crisis (if things get nasty, predicts Professor Andersen, some politicians will want to ease tough measures that push Danes back into work).

In other words, when all other things are equal, the fit should fare better than the frail. This is true of economies as well as of people. Nobody wishes for an epidemic, but if one really is about to strike, Europe is in for a revealing few years.

The race to succeed Gordon Brown

Under starter's orders

Jul 31st 2008
From The Economist print edition

Illustration by David Simonds



The job of prime minister is not yet vacant, but hopefuls are alert

THE poetry of Alfred Tennyson is the kind of thing Gordon Brown, perhaps Britain's most literate prime minister since Winston Churchill, takes with him on the reading marathons he calls holidays. Yet even Mr Brown, now on his summer break in East Anglia (see article), will struggle to enjoy the Victorian poet laureate's observation that "authority forgets a dying king". For it hits too close to home.

Mr Brown, who replaced Tony Blair as prime minister only 13 months ago, may soon be toppled by colleagues who have lost confidence in his ill-starred premiership. On July 24th his party suffered a by-election defeat in Glasgow East, hitherto one of Labour's safest seats. It was the latest of many proofs of Mr Brown's unpopularity, following by-election routs elsewhere, an abysmal showing at May's local elections, the loss of London's mayoralty to a Conservative and months of opinion polls that put the Tories up to 20 percentage points ahead of Labour.

Mr Brown, with some justification, blames the economy. Other governments are meeting the same disdain on the part of voters struggling to make ends meet. After his decade as chancellor, few are better placed than he to cope with the crisis. And it is hard to point to real catastrophes on his watch. Data discs were lost but no one seems to have been defrauded. There was dithering over Northern Rock, a troubled mortgage lender, but customers were not the worse for it. Most of the losers from unpopular income-tax changes are to be compensated. And though Mr Brown's troubles began when he allowed speculation over a snap election to run riot last year, that farce did not materially affect the lives of ordinary people.

Yet none of this moves either voters, who appear to have made up their minds that Mr Brown is not for them, or a growing bunch of Labour MPs, who hope that a new leader would at least avert a landslide defeat at the next general election (which must be held by June 2010), if not actually win it. A politician who once intimidated colleagues into submission is now routinely mocked in the press by Labour MPs (though still under cover of anonymity), including members of his own cabinet.

Mr Brown, for all this, does have a hope of clinging on, though it lies less in anything he does (he plans a fightback under the theme of "fairness" in the autumn, touching on issues such as fuel prices and housing) than in the sheer difficulty of dislodging him. Labour Party rules requiring a challenger to win the backing of 70 MPs make defenestration impractical. It is more likely that senior ministers (such as Jack Straw, the justice secretary) will tell Mr Brown he must go, but no one is anxious to be branded a traitor in a party that esteems tribal loyalty.

The political problems that come with electing a new leader also make it less likely that Labour will cashier the one they have. The spectacle of serving ministers fighting for the crown while the economy deteriorates would not impress voters. And whoever emerges victorious would be under pressure to call a quick general election—two unelected prime ministers in a row would be hard to excuse—that the Tories would still be fancied to win.

Runners and riders

Also in Mr Brown's favour is the absence of a clear leader-in-waiting. The favourite is David Miliband, the 43-year-old foreign secretary who ignored pressure to run when Mr Blair stood down. On July 30th he fluttered the commentariat by writing an op-ed column for the *Guardian*, a Labour-leaning newspaper, which outlined his vision for the party. He did not declare his candidacy but championed ideas that Mr Brown has been famous for resisting, such as reform of the National Health Service; nor did he mention the prime minister. Although he is inscrutable ideologically (the left sees him as a Blairite, but Blairites complain that he lacks fervour for public-sector reform), he appears to have the backing of James Purnell, a reformist minister also thought of as a future leader.

If Mr Miliband has the right of the party to himself, the left may throw up a host of candidates. Ed Balls, the schools secretary and Mr Brown's closest ally, is a likely runner and can match Mr Miliband for youth, if not smoothness. Further to the left is Jon Cruddas, a backbencher who ran a strong campaign for the deputy leadership last summer and pitches thoughtfully to Labour's core vote. Harriet Harman, who defeated him and four others to become deputy leader, may also fancy her chances in another multi-candidate race.

Yet much of the focus is on two men who don't fit easily into either of these camps. Mr Straw, 62 this month, has been a steady performer for years in high offices of state. He could attract support throughout the party—even his friends concede that he travels lightly when it comes to fixed beliefs. And in the dusk of his career he might be happy to mind the shop until the next election, after which the party would have time and space (most likely in opposition) to make a longer-term choice.

Alan Johnson, the 58-year-old health secretary, shares many of these virtues and may offer others. If Labour's main area of weakness is communication rather than competence, Mr Johnson, a natural on television, may be the cure. Tories fear this genial Everyman. But there are doubts about his appetite for the job, and he once declared himself not up to it.

Counting against Mr Brown is his questionable right to demand loyalty—as chancellor, he let his allies destabilise Mr Blair. And there are limits to the parrying argument that a leadership contest would create a vacuum of power at a time when Britain needs a firm hand on the tiller. Little happened in Whitehall during Mr Blair's last year in power, for civil servants knew that long-term commitments could be undone by his successor. If Mr Brown is now seen as certain to lose the next election, a similar stasis could afflict the government for two years—rather than the few months a leadership race would take. When authority seeps away, the kingdom suffers no less than the king.

Political vacations

On the beach

Jul 31st 2008
From The Economist print edition

The leader at bay and at play

Illustration by David Simonds



“BUT where are their policies?”, the prime minister yelped, as a graphic of the Conservatives’ midsummer poll lead flashed across the television. His jowls creased with sorrow as one of his rivals appeared, professing his loyalty. An arm flexed to hurl the remote control at the screen—then “relax,” he told himself, “relax”. He flicked through the channels, searching for Scottish football or talent-show reruns.

After breakfast he started work on his speech for the Labour Party conference in September. It would be the speech of his life, a speech that would unite his party, silence his rivals, make floating voters swoon and grown Tories weep. It would acknowledge the economic plight of hard-working families while reminding people that the real culprits were nefarious financiers, greedy oil moguls and hungry Asians. It would draw a perfect arc from his childhood in Kirkcaldy to the after-hours opening of doctors’ surgeries.

“Listen and learn,” he scribbled: “tough long-term decisions…the fierce urgency of now”. (He instinctively wrote “no return to boom and bust”, but crossed it out.) He speed-read the copy of Gertrude Himmelfarb’s “The De-Moralization of Society” that he’d brought for inspiration. Then he paced the garden of his Suffolk retreat, his wrists twirling in profound gesticulations, practising for his spontaneous prowl around the conference stage. “Stop biting your nails,” his wife called out.

He decided to ring Downing Street. No, his chief of strategy told him, there had been no outbreaks of agricultural disease that might require him to convene a COBRA emergency meeting. No, they were not

expecting any abnormal weather that would oblige him to rush back to London. Try to relax, prime minister, the strategist said.

He tried. He went down to the beach and made a sandcastle, carefully planting a miniature Union Jack on top of it, endeavouring not to think about the perfidy of the voters in the Glasgow East by-election and the deluded nationalism of his Scottish countrymen. Finally he rolled up his trousers and waded into the surf, looking out moodily across the grey and choppy waters. His mind flitted between love, fate, betrayal, the decline of North Sea mackerel stocks and the Icelandic cod war of 1958. For a moment, he felt at peace. He loosened his tie.

Terrorism in Northern Ireland

Down but not out

Jul 31st 2008 | BELFAST
From The Economist print edition

Republican dissidents still make life a misery

PA



Eternal vigilance and the price of peace

TELLING terrorist groups you think them dangerous is not a gambit security services favour—especially when the groups are small and unpopular. But as the anniversary approaches of the car bomb which killed 29 people in Omagh on August 15th 1998, police in Northern Ireland admit that they expect more attacks from republican paramilitaries who hate Belfast's power-sharing settlement. Sir Hugh Orde, the chief constable, says that the "dissidents" are now more dangerous than before because "it is their end-game".

These republican splinter groups may attract little popular support but they are said to have about 80 people on tap to shoot or bomb—more than enough to cause misery. That estimate comes from a new MI5 base in Holywood, near Belfast, that has been responsible for gathering intelligence on the dissidents since the end of last year. In the ten years since Omagh, dissidents have caused a further ten deaths, several of them the result of internal republican feuding. Dozens of planned bombings have been foiled by their own bungles or by police intervention after tip-offs. But some dissidents, it seems, are now trying to import weaponry: two Irish nationals were arrested in Lithuania in January for allegedly attempting to buy guns and explosives.

Revulsion at the events in Omagh, as well as hawklike police attention, has helped to keep the peace in Northern Ireland. The group responsible for that tragedy, the "Real IRA", has splintered. It used to recruit from those who objected to negotiating with unionists and the British, under a name intended to shame mainstream republican leaders such as Gerry Adams, the head of Sinn Fein, and Martin McGuinness, once boss of the IRA. At first the new outfit upstaged older dissidents, the "Continuity IRA" and the INLA (Irish National Liberation Army). All three have fractured repeatedly, inside and outside prison, with damaging allegations of drug-related crime and links to loyalist paramilitaries.

But their persistence worries the police and the Sinn Fein leaders who share devolved power at Stormont with the Democratic Unionist Party. Mr Adams and Mr McGuinness spent years edging towards ceasefire and political solutions in a largely successful attempt to discourage their militant supporters from setting up in opposition. They knew that urging young people in republican areas to join the police, as they have done since last year, would attract yet more scorn. Predictably, the dissidents have targeted Catholics, who now make up more than 20% of what was once an overwhelmingly Protestant force. Some Catholic officers are said to have had to move house for security reasons.

Over the past year Mr McGuinness has paid hospital visits to three officers injured in attacks, calling the dissidents "micro groups" intent on destabilising society. He also joined a protest rally in his hometown of Londonderry on June 24th, when gunmen shot and killed a 22-year-old pizza deliveryman, Emmett Sheils, apparently because he tried to protect someone else. The wildcat and internecine nature of much dissident violence makes it easy for Sinn Fein to denounce it roundly.

It is harder to disown bombings that mimic those of the IRA that Mr McGuinness once led (though he has given it a good try), such as the home-made explosives packed into milk churns and hidden under a bridge in rural county Fermanagh last month. They were detonated unsuccessfully as two young police officers drove over the stream. The next pair on patrol may be less lucky.

Housing market

When the tap turns off

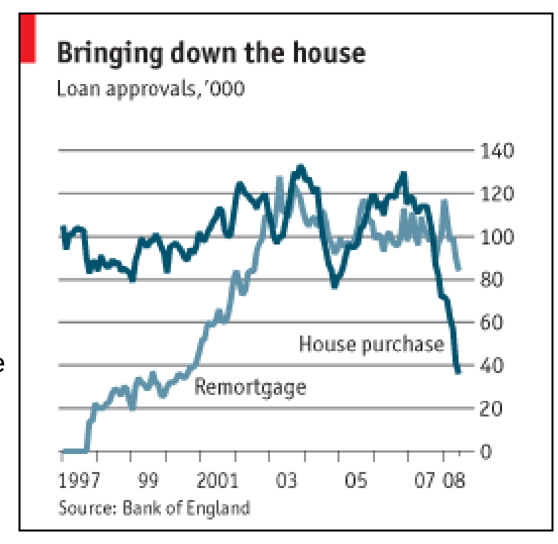
Jul 31st 2008
From The Economist print edition

Lending has slowed to a trickle. What can be done to change that?

WOOLWICH is a down-at-heel working-class port in East London that teeters between gentrification and decay. To the right of the railway station are the money-wiring agencies, mobile-phone shops and African restaurants that identify this as an immigrant neighbourhood. To the left the high street leads to the river, and rows of smart new apartment blocks designed for bankers working in nearby Canary Wharf. The house-price bubble inflated here as fast as just about anywhere in the country. Get-rich-quick investors helped by crafting dubious schemes to get mortgages without paying a deposit and banks seemed happy to oblige them.

Instead of making a quick pound, though, many buyers are now losing their shirts. Flats that they bought three years ago for £330,000 ($580,000 at the time) are back on the market for less than £200,000. One was sold at auction recently for just £115,000. In March (the most recent month for which data are available) the average outstanding mortgage in this neighbourhood was 91% of the value of the property it was secured on—the highest loan-to-value ratio in London and the third-highest in the country, reckons Experian, a credit-scoring outfit. With banks virtually on strike and loans approved only for those able to put up huge deposits, Woolwich is enduring a particularly hard landing. New flats in Thamesmead, downriver from Woolwich, are standing half-empty, the overgrown gardens filled with litter.

Similar strains are being felt across the country. Mortgage approvals for home purchases in June fell to 36,000, according to the Bank of England—a third of what they were a year ago (see chart). One reason is that house prices are down about 9% from their peak in October 2007, on figures from Nationwide, a building society. Transactions have slowed as sellers hold out for better prices and buyers bide their time. Another is that most banks are desperately short of cash, and those that are not have become desperately discriminating.



Until global credit markets froze late last summer, Britain's banks were great fans of mortgage-backed securities. Gone were the days of taking in £1 of deposits to extend £1 in loans. Instead, banks funded some 40% of new mortgages (or 21% of the £1.2 trillion outstanding) by bundling up loans and selling the securities they backed. In 2000 around £13 billion-worth of mortgages were securitised in this way; by 2006 the figure had jumped to £257 billion and was growing at a pace of £78 billion a year. The easy credit that resulted fuelled both the boom in house prices and the consumer spending that helped Britain's economy grow—until the crisis in American sub-prime mortgages ripped the lid off reckless lending elsewhere too.

A review of the wholesale mortgage market for the Treasury by Sir James Crosby, a former boss of HBOS (one of Britain's biggest mortgage lenders), makes dire reading. His interim report, released on July 29th, says that since credit crunched last August only one British bank has managed to sell off a package of loans, and that was a paltry £500m-worth. Not only are banks unable to continue lending at anything like their previous pace, but capital markets are now sucking money out of the diminished pool available for mortgage lending. Sir James reckons that about £40 billion-worth of existing mortgage-backed bonds will mature in each of the next three years—equal to about two-thirds of the net new lending forecast for the period.

The Crosby report—coming as America tries ever harder to breathe life into its mortgage market—has led to a furious debate over whether Britain's government should try to fix things too, and if so, how. Most proposed remedies are variations on a couple of themes. The first is that the Bank of England should

extend its special liquidity scheme and lend banks directly whatever they need, accepting more mortgages, or mortgage-backed bonds, as collateral. The second is that the Treasury should simply guarantee mortgage-backed bonds.

Yet loading more risk onto taxpayers will not discourage banks from the silly lending that caused credit markets to jam in the first place. Nor will it help to establish a genuine price for mortgage-backed bonds—a prerequisite if a market in them is to be restored. Though his final report is not due until the autumn, Sir James has dropped the heaviest of hints that he may not call for any government intervention. If the prime minister is intent on reviving his career by reviving the mortgage market, however, the hint may fall on deaf ears.

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Teaching economics

A vanishing breed

Jul 31st 2008
From The Economist print edition

The dwindling number of those training to teach economics in secondary schools is less worrying than it seems

PA



Fewer young fans for Adam

IN EARLY July Edinburgh belatedly erected a statue, complete with semi-invisible hand, to Adam Smith, thus granting one of the fathers of economics, and Scotland's most meritorious son, long-overdue recognition. Yet there is a good chance that the statue will garner as many glances of blank indifference as of knowing admiration—at least from Britain's younger citizens.

According to a report this week from the Centre for Education and Employment Research at the University of Buckingham, only three of the 16,440 graduates who began training as secondary-school teachers in England last year enrolled to teach economics. In 2006, by comparison, 84 graduates signed up to do so. Not unrelatedly, perhaps, the number of students studying A-level economics has fallen by 29% over the past decade, even though total A-level entries have risen by 9%.

One explanation for the drop is that economics is not part of the required national curriculum. In many state schools the subject is seen as an unaffordable luxury. The Training and Development Agency for Schools, the government body that allocates places to teacher-training providers, stipulates that those who go in for economics must also teach its less challenging cousin, business studies; and a number of teacher-training institutions have now begun to lump the two together. Yet, as Alan Smithers, the report's author, points out, this is "detrimental to both subjects and off-putting to high-level economists".

A bigger reason why so few economics graduates choose to teach these days is that, as with mathematicians, their degree opens many better-paid doors. Classicists and historians have few obvious non-pedagogical options; economists are courted by finance and industry—or were, before the credit crunch began to squeeze City payrolls.

Whatever its source, does this dearth of economists in schools matter? The short answer is probably not. First, there is no sign that the waning interest in economics at school is reflected in waning interest at university: the number of students enrolled in economics courses at that level has fluctuated by only a couple of percentage points in ten years. Few economics faculties demand that applicants produce an economics A-level, and most pupils who study the subject at school do not pursue it further.

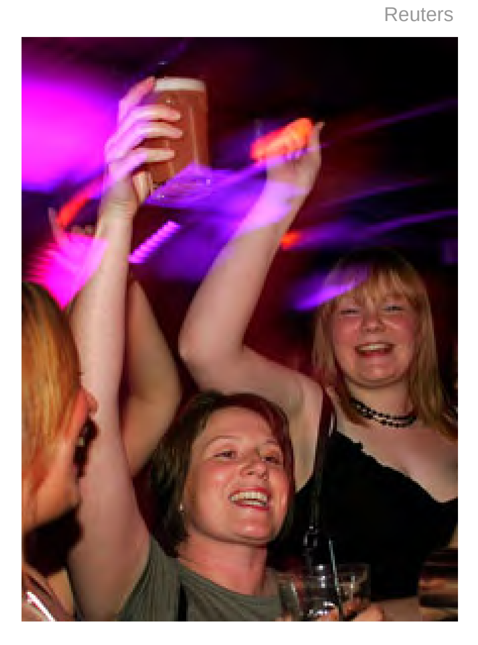
Second, the curve-shifting brand of economics taught in schools is qualitatively different from the complex modelling required at university. Economics is not like foreign languages (also, and more regrettably, in decline in secondary schools): there is no particular reason to learn it young, when time could perhaps be better spent acquiring general mathematical skills. Smith himself might not agree, but teaching economics to 16-year-olds may well be a specialisation too far.

Regulating booze

Roll out the barrel

Jul 31st 2008
From The Economist print edition

Pubs are in trouble for cheap drinks. But ever more is being sunk at home


Reuters

DRINK is curiously regulated in Britain. Licensing authorities can make very specific demands about the way booze is sold and served: some licensees are allowed to provide alcohol only with food, or admit only those aged over 25, for example. Rowdy bars are often ordered to install more tables and chairs, because people drink more slowly when they are seated. But when it comes to price, the most obvious determinant of consumption, the authorities usually give barmen fairly free rein. On slow nights, it is easy to find drinks on sale for less than £1; in some clubs, women can drink for free.

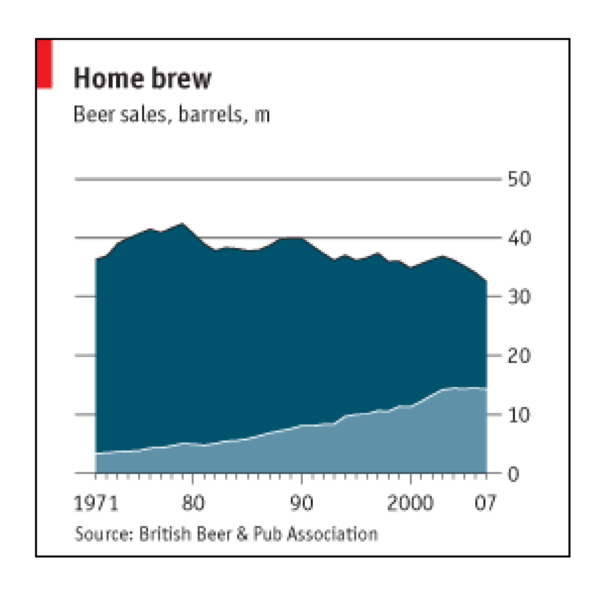
Many Britons are now taking time off from worrying about the high cost of food and fuel to complain about the low cost of drink, which is blamed for teenage violence and adult ill-health. Publicans have played into their hands: on July 28th the British Beer & Pub Association (BBPA), a trade body, admitted that it had withdrawn its guidelines to members on "responsible promotions", citing legal advice that such guidance might breach competition rules. The Home Office had just published a report showing that in any case many establishments were flouting the code, which included a ban on things such as organised drinking games or "all you can drink" deals. The government is now contemplating a formal clampdown on such practices.

But pubs are closing at a rate of 27 a week, the BBPA says. Publicans blame it on the economic downturn, which is tightening belts everywhere, recent increases in alcohol duty (following long-term real falls, mind you) and last year's ban on smoking in public places, which has made pubs nicer for most people but driven some regulars away.

A longer-running problem is competition from off-licences. Take beer: although Britons still drink nearly as much of it as they did in the 1970s, pubs' share of the market has crumpled (see chart). Corner shops and supermarkets, which once had less than a tenth of the market, are on their way to grabbing half of it, thanks to relaxed trading hours and discounts that make pubs' pound-a-pint offers look steep. Staying at home is more fun than it used to be anyway, with satellite TV and computer games in the sitting room. Last year pubs pulled less than half as many pints as they did 30 years ago. In the same period, beer sales from shops more than trebled.

But pubs' woes are not all due to competition from retailers. High residential property prices have tempted many landlords to convert their premises into homes for a quick profit. And those that survive may not all be hard up: falling beer sales have been offset by a big increase in wine drinking since the 1970s, and an advertising push in the 1990s caused a smaller upturn in the market for cider.

Above all, Britons are drinking more. Alcohol consumption per person is nearly 70% higher than it was in 1970, mainly because women now glug almost as much as men. Such is the national thirst that new outlets are unlikely to harm existing ones, reckons Fiona Measham, a boozeologist at Lancaster University. "Some people now drink at home instead of in the pub, but a whole lot more of us do both."


Home brew
Beer sales, barrels, m
50
40
30
20
10
0
1971
80
90
2000
07
Source: British Beer & Pub Association

BAE and the Saudi arms deal

Timid justice

Jul 31st 2008
From The Economist print edition

A ruling by the law lords ratifies one law for bullies and another for the rest

WITH the best of intentions justice is not always as blind as it should be. But seldom is it as downright astigmatic as it was on July 30th, when the law lords ruled that the Serious Fraud Office (SFO) was entitled to submit to blackmail and drop its investigation, in December 2006, into alleged bribery in a Saudi Arabian arms deal.

The SFO called off its gumshoes soon after they started circling the Swiss bank accounts of senior Saudi figures, and said figures squealed. At issue was whether bribes had been paid in relation to Britain's biggest-ever arms deal—a £43 billion contract between the governments of Britain and Saudi Arabia and BAE Systems, Britain's largest defence firm, to provide the desert kingdom with fighter jets and training. The SFO said it halted the investigation after receiving warnings from several sources that it could prompt Saudi Arabia to stop sharing anti-terrorist intelligence with Britain.

This week's ruling overturns an earlier one by the High Court in April, which found that the director of the SFO at the time, Robert Wardle, should not have dropped the case. Judges in the lower court had lambasted Mr Wardle for his "abject surrender" in the face of Saudi threats—arguing that had they been made by people subject to English criminal law they could have led to a charge of attempting to pervert the course of justice. Yet the lords decided that, confronted with dark mutterings by British spies and diplomats about threats to "British lives on British streets" should Saudi Arabia withhold intelligence, Mr Wardle was lawfully entitled to drop it.

Dismayed campaigners against corruption (and, not a few of them, the arms trade) have been quick to warn that the ruling sets a dangerous precedent. "It is a sad day for the rule of law when a senior prosecutor bows to threats from a foreign government and our most senior judges will do nothing to stop it," says Eric Metcalfe of Justice, a human-rights group.

Just as worrying is the signal the ruling sends about a legal system that has long been criticised for its sloth in pursuing white-collar criminals in general. It was fortuitous for the government, then, that eight men were arrested on July 29th in connection with a probe of insider trading—a crime more notable in Britain for its prevalence than for the vigour with which it is prosecuted.



Bagehot

ArmaGordon

Jul 31st 2008
From The Economist print edition

Are the stakes high enough to justify regicide?

Illustration by Steve O'Brien



THE word “fascist” was whispered by some discomforted observers at last year’s Labour Party conference: so triumphalist was the mood, so impregnable seemed the new prime minister, so confident his followers of smashing the Conservatives, snuffing out David Cameron and securing near-eternal power. That was then. The Labour conference this September will be a festival of existential angst—and thus, perhaps, of regicide.

The political costs of deposing Gordon Brown so soon after Labour ditched Tony Blair would be huge. Almost all Labour MPs endorsed Mr Brown’s accession; ousting him would make them look preposterous. His remaining allies point out, menacingly but fairly, that yet another prime minister with no personal mandate would probably feel obliged to hold a general election quickly. Thus a move against Mr Brown this autumn might necessitate a vote early next year—in the middle of an economic slump, with the party almost broke and Mr Cameron’s Tories, in all likelihood, still 20-odd points up in the polls. That prospect makes sparing Mr Brown, at least until next summer, seem prudent.

For all that, the knives are out again. The threat is not some chimera invented by a mischievous and hysterical media: like the plans for a snap election that helped to get Mr Brown into this mess last year, it is real. Some phlegmatic ministers argue that final judgment on him should be reserved, and that he may yet unleash a magical new economic strategy. But some of those admit they are outnumbered by the plotters. The cause of the mutinous fever is simple: less than a year after its moment of imperial hubris, Labour is contemplating not just defeat, but meltdown.

On current polls, Mr Brown is set to lead Labour to perhaps its worst election result since the second world war, a rout like that the Tories suffered in 1997. What was left of the parliamentary Labour party afterwards might retreat into unelectable pre-Blair left-wingery (though it might not). That understandably alarms Labour MPs who lack titanic majorities in their constituencies. It enrages the old allies of Mr Blair, who spent much of their adult lives turning Labour into an election-winning force and are understandably disinclined to go gently into another long night of opposition. And some think Labour could sink lower still.

In the ultra-gloomy analysis, the worry is bigger than Mr Brown. The culprits include Margaret Thatcher, the rise of the Asian tigers and the long economic boom over which Labour itself has presided. The problem, in other words, is the death of Britain’s old industrial economy and the re-ordering of its class structure. That has shrunk the block of partisan voters on whom Labour could formerly rely. The Tory base is less solid too; but with its elastic pragmatism, Conservatism is better suited to this new era of politics than Labour. Meanwhile, newly salient issues such as terrorism and immigration favour the right (which may help to explain the squeeze being felt by parties of the left across Europe). Worse, devolution has helped to engender strong nationalist parties in Wales and especially Scotland, able to humble Labour in what were once its heart of hearts.

With his chameleonic charm, Mr Blair managed to straddle this complex social landscape and build an election-winning coalition. Mr Brown, it seems, cannot. Under him Labour lost in London, lost in Crewe and, in the by-election of July 24th, lost in Glasgow East, hitherto an archetypal rotten borough. Mr Brown, the argument runs, may be steering his party towards annihilation, of the kind suffered by Britain's Liberals after the first world war or the Progressive Conservatives in Canada in 1993.

These two Labour scenarios—terrible and apocalyptic—seem to be concentrating the minds of Mr Brown's potential successors. An aspiring Labour leader who today is, say, 43 (like David Miliband, the foreign secretary) could afford to wait until after an election loss for the main chance—so long as he thought a subsequent Labour win might send him to Downing Street following a briefish spell in opposition. But a huge defeat might mean a decade or more in the wilderness, enough time for some unforeseen candidate to rise to the top, as Mr Blair and Mr Cameron did. So such a contender might hope that the party would forgive him an early and respectable defeat at its head and that, as in days of yore—before political leaders began to face the same sort of summary judgments as football managers—he might get a second crack at the premiership after a Tory interregnum.

So much for the Labour Party. There is another way to look at the Brown predicament, involving that quaint old consideration, the national interest. Here the calculation is oddly similar.

Speak for England?

When they began last autumn, Mr Brown's troubles were bad for him and Labour, but a distraction rather than a disaster for the country. Although the government's erratic policies and irresponsible borrowing have since made his plight a national issue too, Britain is not yet being wildly misgoverned. A putsch might mean months of self-indulgent ministerial introspection at a time of economic difficulty. So there is no urgent need for disruptive change. But the case looks stronger if Mr Brown's leadership is indeed likely to ruin Labour—which would leave Britain (as in the early 1980s and for some of the time since 1997) without a sensible or substantial opposition. If so it might be better for everyone (except Mr Cameron) if he goes.

Is it—and will he? The fact that less than a year ago it was the Tories who seemed extinguishable should give Labour hope, and the assassins pause. The party is not ideologically fractured, nor threatened by a plausible centre-left rival in England as it was by the Social Democrats in the 1980s. So the actual probability of a Labour Armageddon may be low. But if even a remote danger is grave, as this one is, it can make sense to try to avert it. Thus the likelihood of ArmaGordon is much higher. Mr Brown has only an evens chance of leading Labour into the next election.

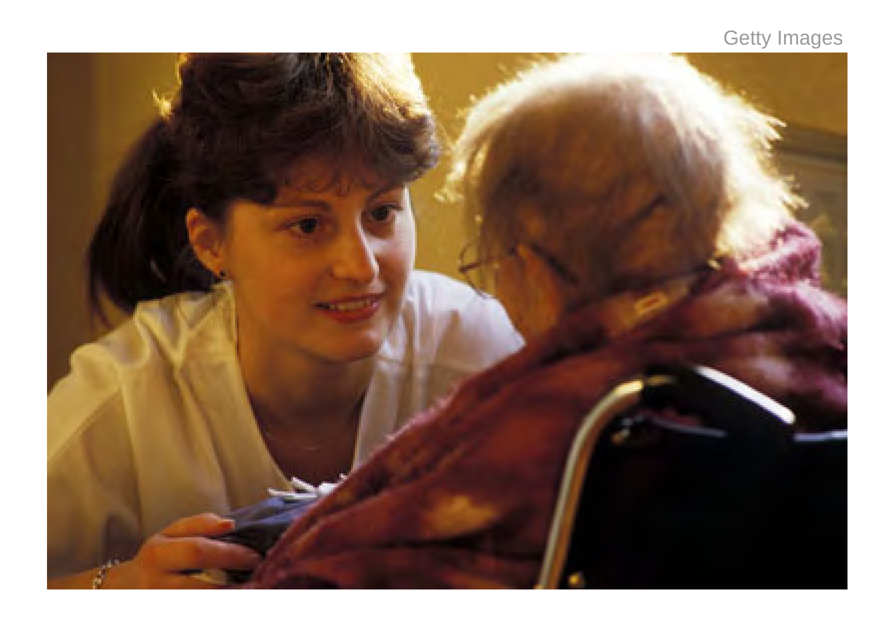


End-of-life care

Into the sunset

Jul 31st 2008
From The Economist print edition

Getty Images



The idea that the terminally ill need pain relief and humane care instead of "curing" is catching on. But what about the people who just grow old?

"MOST things may never happen: this one will." That stark allusion to death, penned by the poet Philip Larkin, sums up the philosophical starting-point of the hospice movement, which began in Britain 40 years ago and has since become influential, in various ways, in almost every corner of the world. Given that your time on earth is bound to finish one day, assuring a decent quality of life in the final months and years often makes better sense than trying to prolong a painful existence for a short period; so in many cases, loving care and pain relief should take priority over aggressive intervention. When Dame Cicely Saunders, who founded the Saint Christopher's Hospice in London in 1967, first aired those ideas, the medical world was hostile. Now her beliefs enjoy wide acceptance.

One sign of that change is the establishment of thousands of hospices, places dedicated to caring rather than curing. Another is the way in which doctors, nurses and patients in many other institutions have absorbed the movement's thinking.

America's first hospice was founded in 1974, and the idea spread rapidly. Half of all Americans will now use hospice care at some point in their lives, and around 75% of deaths in American hospitals occur after an explicit decision not to intervene.

In Europe, too, there has been a revolution in attitudes to care for people who are nearing the end of life, and in people's willingness to broach the subject. Lukas Radbruch, president of the European Association for Palliative Care, recalls that when he started working as a doctor in the field 20 years ago, Germans did not want to talk about death. Now he is in demand as a lecturer to groups like the Rotary club.

Yet for all its successes, the hospice movement faces challenges that will far outstrip the resources now dedicated to palliative care, even in the richest countries. Hospices are generally associated with cancer, where after a certain stage life expectancy is short and fairly predictable. But the current habit of treating people as "either temporarily immortal, or dying"—as Joanne Lynn, an American geriatrics expert, puts it—makes no sense when patients suffer chronic disease of the heart or lungs, or succumb slowly to dementia, or to general decay. An important category of people, already huge in the rich world and soon to grow in developing countries (see article), consists of elderly people who will never be well, but have no idea when they will die. There is no single answer: hospitals, nursing homes and family care will all play a role.

Looking after the old is bound to be complicated; elderly people with several diseases can all too easily find themselves bounced from family doctor to health adviser to specialists in one field after another. But depending on their medical and political culture, different countries are tackling the problem in different ways.

Planning for a big demographic challenge should, in theory, be easier for European countries that have unified health systems—based either on state provision or compulsory insurance—than it is in America, where medical care is diversified and mainly private. But even in Europe's most socialised bastions, hospices tend to be privately or charitably funded, at least in part. Clever synergy will therefore be needed between public policy and these firmly independent institutions. Spain's Catalonia region is one of the rare places where hospices have been set up in a top-down way by the state.

Elsewhere in Europe, every country has its own approach. Belgium trains all its family doctors in palliative care, but has very few specialist teams of carers. The Netherlands has hospice units of two to four beds in nursing homes rather than hospitals. Norway has palliative-care centres at its six main teaching hospitals and lots of community-based provision.

Britain's National Health Service does better than most at identifying people who may be in the last year of life. Under a plan known as the Gold Standards Framework, such people are given an adviser who assesses their needs and symptoms, asks about their wishes and helps everybody involved to plan for the future.

In America, the onus is more on individuals to make prudent financial plans and write living wills (which specify the sorts of intervention that are *not* desired); there is nothing in American law that stops people expressing such wishes and insisting on their fulfilment. The difference, perhaps, is that most European systems have a clearer default option for those who fall seriously ill with no plans or preferences.

As the experience of many countries shows, sensible practices come into being only when the population being cared for is large enough to make it worthwhile to keep decent records and devise sound default options. America's leaders in caring for the very elderly are the Veterans Health Administration (responsible for about 24m old soldiers) and giant health-care providers like Kaiser Permanente, with nearly 9m people on its books.

For Americans who lack access to such bodies, there is eventually a safety net (whose effectiveness varies between states) for those who are old enough to qualify for Medicare, and poor enough to qualify for Medicaid, another federal programme. Some Americans find they have little choice but to sell as many possessions as possible until they join the ranks of the "dual eligibles".

Home is where the heart is

A growing number of infirm and very old people in all rich countries are looked after at home. This often means that someone—almost always a daughter or daughter-in-law—has to leave her job. In general, Europe offers more state support for such informal care givers. Those in Britain get a small state stipend, as well as retirement contributions. Austria and France provide "care holidays", where a professional helper takes over for a week or two. By contrast, American carers who leave their jobs also forfeit health-insurance and social-security contributions. But in America, too, the lot of care givers may improve as their numbers and political influence grow.

For all that, relying too much on care in the family has its drawbacks. Among baby boomers, it was common to have only one or two children. Now many boomers are coping with their elderly parents' infirmities while fretting at the same time about who will provide their own care as they become frail in their turn.

Nursing homes are part of the answer, but palliative-care workers worry about how well these institutions have learnt to look after the chronically unwell. Despite the improvements of the past 20 years, not all nursing homes have accepted basic palliative-care principles. Studies have shown that in many American institutions, residents are poorly treated for pain.

Another common gripe about American nursing homes is that their residents are still all too likely to be rushed off to hospital as they begin to die. Some reasons for this are legal: nursing homes are tightly regulated in their use of opium-based pain-killers, and also fear lawsuits if they fail to do everything possible to prolong life. But there are cultural issues too. Nursing homes are staffed by people with a

variety of ideas about end-of-life care. By no means all share the live-and-let-die convictions of the hospice movement.

In all rich countries, the movement has some way to go in spreading its message. Palliative-care specialists lament that people with degenerative diseases are not always sent to them: it is still assumed that hospice care is for cancer alone. Another concern is the rising cost of labour. Good palliative care does not rely on expensive technology, but it does need staff to clean, feed and wash people. In Western Europe such work is often done by workers from poorer countries to the east; in the United States, it falls to Hispanic immigrants. But there is no reason to think the supply of such willing hands will be indefinite.

Helping people to confront the reality of death is rightly seen as one of the hospice movement's biggest feats. But on this front too, it still has some way to go. Whether in the earthy, family-minded Mediterranean or the buttoned-up culture of the Teutonic world, men and women hesitate to contemplate the practical details of planning for a messy, protracted demise. Although talking about death is no longer a taboo, dementia and incontinence remain hard to discuss.

Workers in palliative care across the world already talk to each other in a very down-to-earth way. But as Dr Lynn says,“we need to start telling the story” to the general public if the movement is to achieve another 40 years of success.



Ageing populations

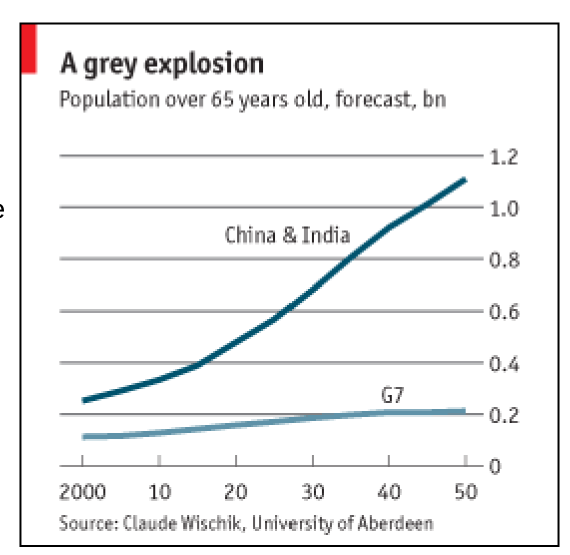
Things to look forward to

Jul 31st 2008
From The Economist print edition

Live longer, die slower

AS any amateur futurologist can tell you, the rich world is rapidly getting older. By 2050 more than a quarter of the developed world's population will be over 65. At the moment, that group makes up about a sixth of the rich-world population, and only about 25% of them are over 80. In 2050 the octogenarians and their elders will comprise 40% of the 65-plus cohort in wealthy countries.

This greying of the prosperous parts of the world has long been foreseen, if not very well prepared for. Much less well known is the fact that well-off countries are far from alone in facing the prospect of an ageing population. Babies born today in poorish countries such as Thailand or Jamaica can reasonably expect to live into their 70s. And as more and more Indians and Chinese escape from poverty, they too will have much longer spans (see chart).



By 2050 the percentage of the Indian population over 80 will have risen fivefold, and the same segment in China will have gone up six times. Such changes happen for two reasons: people's general health is better, meaning they wear out later, and preventable deaths of the relatively young are, in fact, prevented. As anti-retroviral treatment for HIV/AIDS becomes more common, childbirth safer and malaria more treatable, people will die at a more advanced age. By 2050 close to 80% of all deaths in the world are expected to occur in people who are older than 60.

While people of 59 or under die in any number of dramatic ways, people on the other side of 60 face three possibilities which between them carry off most of the elderly, whatever their economic circumstances. Each peaks in a different decade, and each produces a different sort of end of life.

The first is cancer: most victims function reasonably well before entering a steep decline. Cancer deaths peak at 65-plus, and more and more sufferers recover. If they do, two other clouds appear on the horizon. One of these is chronic organ failure and the other is frailty, dementia and decline. Chronic problems with an organ—usually heart disease or emphysema—bring a gradual decline punctuated by severe episodes, such as a heart attack or lung failure.

Dementia or frailty can mean a long, poor-quality end of life. As more cures are found for cancer, and sensible types give up smoking and bacon, more people will find that a slow decline is the meagre reward for their virtuous behaviour. That applies to developing countries as well as rich ones. There has never been a bigger need for cheap, effective treatment for diseases of the old, such as Alzheimer's (see article) or for easier access to pain relief and reliable care.

Orthodox Christianity

Brothers in Christ

Jul 31st 2008
From The Economist print edition

By the skin of their teeth, prelates of the Christian East avoid a rupture

WHENEVER two or more Orthodox Christian clerics join in celebrating the Eucharist—consecrating bread and wine in a manner that is far more elaborate, solemn and formal than is usual in today's Christian West—it creates a special bond between them. And if one Orthodox cleric refuses to "concelebrate" with another, that is a sign of a deep, painful rift.

That helps to explain why Orthodox Christians all over the world (who may number more than 200m, if one makes generous assumptions about the religiosity of ordinary Russians and Ukrainians) looked on with fascination as two important gentlemen, one from Moscow and the other from Istanbul, came together in Kiev on July 27th to conduct their church's most important rite. This was a powerful, if provisional, moment of reconciliation between the Patriarchs of Constantinople and Moscow, whose relations have been scratchy for most of the past decade.

It was a close-run thing: the 1,020th anniversary of the advent of Christianity among the Slavs, celebrated with enormous fanfare by Ukraine's President Viktor Yushchenko, might just as easily have led to a dramatic bust-up between the two institutions whose multiple disagreements have cast a shadow over Orthodox Christian affairs in places ranging from New York to Paris to Beijing.

In the end, however, rupture was avoided. A basis was also laid for better relations in future, thanks to careful diplomacy by Bartholomew I, the Patriarch of Constantinople, who is by tradition the "first among equals" in the Orthodox hierarchy.

Why were the Ukraine festivities such a pivotal moment? Mr Yushchenko, a devout believer himself, longs to see a united Ukrainian Orthodox church; some say he is envious of the role played by his counterpart in Moscow, Vladimir Putin, in ending an 80-year-old division in the Russian church. But Ukraine's religious scene is messy. There are Greek Catholics who worship in an Orthodox way but acknowledge the pope; there are two church organisations (one founded in 1921, the other in 1992) which identify strongly with Ukrainian nationhood but remain unrecognised by other Orthodox Christians. The largest group, as measured by the number of parishes, consists of Orthodox Christians aligned with Moscow.

Mr Yushchenko gave Patriarch Bartholomew a red-carpet reception in the hope that the visitor would help bring closer his dream of a single national church, no longer tied to Russia. In the Muscovite camp, rumours were rife that Patriarch Bartholomew was about to recognise unilaterally an independent Ukrainian church, causing an almost irreparable breach between Moscow and Constantinople. In the end, Patriarch Bartholomew steered a middle course—assuring Mr Yushchenko that he too yearned for unity among believers in Ukraine, while also accepting that (at least until some other arrangement is agreed upon) Patriarch Alexy remains the legitimate Orthodox authority in that part of the world. As a Turkish citizen who heads that country's small Christian minority, Patriarch Bartholomew is used to tightropes; and this time his footwork was exceptionally delicate.

Terrorism

Dogged pursuit

Jul 31st 2008
From The Economist print edition

Al-Qaeda's chief poisoner appears to have been killed by the Americans

SOME of the most disturbing images to emerge from Afghanistan after the fall of the Taliban were al-Qaeda's in-house videos of dogs writhing, panting and finally collapsing as they were killed with chemicals, apparently a poison gas.

These seemed to confirm some of the West's worst fears: that al-Qaeda was experimenting with weapons of mass destruction, and might use them in future attacks. The man principally responsible for the grisly tests, and much else besides, was a 55-year-old Egyptian chemist called Midhat Mursi al-Sayid Umar, better known by his *nom-de-guerre*, Abu Khabab al-Masri. He is reported by several sources to have been killed in the latest American cross-border missile strike on Pakistan's lawless tribal belt on July 28th.

Caution is in order; Abu Khabab was reported killed in January 2006. But his would be an important scalp in America's intensified campaign of assassination in the tribal territories where al-Qaeda has recreated a safe haven. These are not as secure a sanctuary as Taliban-ruled Afghanistan—a senior al-Qaeda figure, Abu Laith al-Libi, was killed by a missile strike last January—but Western intelligence agencies say al-Qaeda now worries less about mere survival and more about propagandising (it has just called upon Muslims to kill Saudi Arabia's King Abdullah because he co-organised an inter-religious gathering in Spain), training and planning future attacks.

Mr al-Masri, in particular, was said to have resumed the experiments with chemical and biological agents that he had started at Derunta camp, west of Jalalabad, under the code-name of *al-Zabadi* ("curdled milk"). America placed a $5m bounty on his head, saying he had "provided hundreds of mujahideen with hands-on training in the use of poisons and explosives". He also wrote military manuals that include instructions for making chemical and biological weapons. Reports have linked him to the bombing of the Egyptian embassy in Islamabad in 1995, the foiled "Millennium plot" to detonate a car bomb at Los Angeles airport in 1999 and Richard Reid's failed attempt to blow up an airliner in 2001 with explosives hidden in his shoe.

The death of Mr al-Masri, if confirmed, would be a further blow to al-Qaeda in a bad 12 months that have seen big setbacks for its campaign in Iraq and an ideological backlash from important militant figures. Western intelligence agencies also believe that al-Qaeda is short of funds.

But it is unlikely that America's terrorism-fighters are feeling complacent. The *New York Times* reported on July 30th that a senior official of the Central Intelligence Agency had gone to Pakistan to present fresh evidence of the split loyalties of that country's espionage service, the Inter-Services Intelligence. The American dossier is said to highlight the long-suspected connection between the service and fighters in the tribal areas, particularly the network headed by Maulavi Jalaluddin Haqqani (credited with some of the most spectacular attacks in Afghanistan), which in turn has close bonds with al-Qaeda.

And whatever its recent losses, al-Qaeda is not about to disappear. It is a resilient movement, with a proven ability to fill any gaps in its ranks rather quickly. Abu Khabab, long a marked man, has doubtless passed on his knowledge to others in preparation for death.

Fun, games and money

Jul 31st 2008
From The Economist print edition

Sport has become a global business as well as a recreation for billions, says Patrick Lane (interviewed here). But how to make it faster, higher, stronger?

Reuters



EVEN in China, a century is a long time to wait. In 1908, as the fourth modern Olympic games took place in London, a magazine called *Tianjin Youth* posed three questions. When would a Chinese athlete take part in the games? When would the country send a team? And when would it stage the games?

The answer to the first question turned out to be 1932, when Liu Changchun, a sprinter, made his way to Los Angeles from his home in north-eastern China, then under Japanese occupation. He won nothing, but is remembered as a hero.

China sent teams to the Olympics in 1936, 1948 and 1952, but then stayed away until the winter games of 1980. Four years after that, when the summer games returned to Los Angeles, Xu Haifeng, a pistol-shooter, won China's first gold medal.

Now China has a full set of answers. The greatest sporting show on Earth is coming to Beijing, and the organisers are leaving nothing to chance. They have crammed as many lucky number eights into the arrangements as they sensibly could. The opening ceremony of the 2008 games will begin at 8.08pm on August 8th.

When the Olympic flame is lit, China will be hoping for a 17-day festival of sport and international friendship. It sees the games as marking not just its re-emergence as a global economic force but also as a country that the rest of the world treats with admiration and respect. Lately China has come to view the flame as a bright light in a year of calamities, including heavy snow that caused chaos in January and February and an earthquake in Sichuan province in May that killed tens of thousands. It has, however, had less comforting connections with unrest in Tibet.

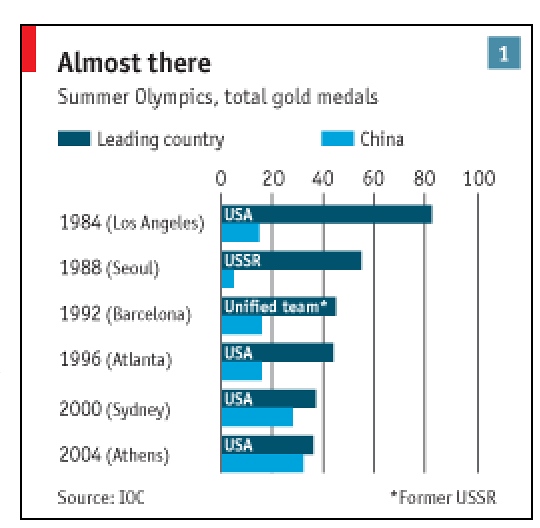
Beijing is sure to get its festival of sport, with 10,700 competitors from more than 200 countries playing 28 sports. In September it will also play host to 4,000 athletes with disabilities, in the Paralympics. There are sure to be moments that raise the hairs at the back of the neck. With a bit of good fortune, one such moment could come on the first weekend of competition, when in a spanking new 18,000-seat basketball arena in west Beijing China's men are due to take on the mighty United States.

Fortune depends largely on Yao Ming's left foot. Mr Yao is a sporting icon in China and also a star in America, where he plays for the Houston Rockets; at 2.29 metres (7'6"), he is the tallest player in the National Basketball Association (NBA), as well as one of the best. But he suffered a stress fracture in

February and started playing again only in mid-July.

China wants to be a great power in sport as well as in economics and international affairs. Ask Chinese officials whether they care about winning the most gold medals, and they will demur politely: winning, they say, isn't everything. But winning does matter, as it does to Americans, Russians or Germans. Few will be surprised if China tops the medal table this time (see chart 1).

Whether China gets its festival of friendship is another matter. Plenty in the West think China should not have been given the games at all. Its critics say it has done too little to elicit better behaviour from its nasty friends in places such as Myanmar and Sudan. They say, too, that China is cruel to dissidents and minorities at home, not least in Tibet, where unrest erupted just before the Olympic torch began its relay from Greece to Beijing. The relay—invigilated by burly Chinese minders—was met by protests in several cities, which angered the Chinese.



The games in Beijing will not suffer a sporting boycott like those of 1956, 1976, 1980 and 1984. But some foreign leaders will stay away from the opening ceremony, and neither China nor the International Olympic Committee (IOC) can do anything to prevent criticism from abroad. Some athletes, too, may see the games as an opportunity for making a political protest, even though that is against Olympic rules. It has happened before.

Festival of commerce

However, the Olympics can also be seen as another sort of festival: of global business. True believers in the Olympic spirit might balk at this. There is no prize money on offer: athletes compete only for the glory of gold, silver and bronze. Most of them are thrilled just to be there. The IOC insists it is not a profitmaking body. And Olympic venues are free of the advertisements that encircle other sporting arenas.

Yet commerce is more certain to be in the air than the Beijing smog. Olympians ceased to be amateurs long ago. Win a medal, and financial rewards will follow. Sporting federations will be keener to provide facilities, and corporate sponsors want to back winners. For companies, the games are a golden marketing opportunity. Sportswear manufacturers have no better showcase. For almost anyone selling anything, the Beijing Olympics are a chance to reach 1.3 billion people in an economy with double-digit growth, not to mention billions more watching around the world.

The Olympics have 12 main sponsors, from Kodak, which backed the first modern games in 1896, and Coca-Cola, part of the show since 1928, to Lenovo, a Chinese computer company that signed up in 2005. For the four years to 2008, they are paying out a total of $866m in money, goods and services. In all, more than 60 companies, both Chinese and foreign, are sponsoring the games. “No multinational company bent on expanding into China or national company seeking to grow inside or outside China will miss out on the branding opportunity presented by the Olympics in Beijing,” according to Sir Martin Sorrell, chief executive of WPP, a giant advertising and marketing agency.

Underpinning this festival of commerce is the symbiotic relationship between sport and the media. That still chiefly means television, but more and more people also follow sport on computers, BlackBerrys and mobile phones.

Sport has clearly become a global business—but in fact it has been since long before “globalisation” was invented. International sport dates back to the 19th century, and the commercial exploitation of sport is even older than that. What is new is the degree of commercialisation and its spread to emerging markets.

One sign is that capital is chasing sporting profit across borders. For example, nine of the 20 football clubs in the English Premier League last season were owned by foreigners. (The final count was eight: no amount of American cash could have saved Derby County from relegation.) One or two may be rich men's playthings, but most have been bought for the media rights, ticket sales and merchandising.

Another sign is the international integration of sport's labour markets. Brazilian footballers, for instance, turn up in leagues from the Faroe Islands to Vietnam. Successful sportsmen and women are now earning sums that the stars of a generation ago could not have dreamed of. Money from broadcasters and sponsors inflates pay packets to eye-popping dimensions, especially when an attractive image meets sporting brilliance. Tiger Woods is as far ahead in earning power as he is on the golf course (see chart 2).

AFP



Muscular earnings 2

Biggest earners*, $m, latest year/season

Tiger Woods	Golf	127.9
Phil Mickelson	Golf	62.4
David Beckham	Football	48.2
Kimi Raikkonen	Motor racing	46.0
LeBron James	Basketball	40.5
Floyd Mayweather Jr	Boxing	40.3
Ronaldinho	Football	37.5
Lionel Messi	Football	35.8
Kobe Bryant	Basketball	35.5
Roger Federer	Tennis	35.1
Fernando Alonso	Motor racing	35.0
Shaquille O'Neal	Basketball	35.0

Source: *Sports Illustrated*

*Includes salary, bonus and endorsement estimates

Sport's product markets, too, are becoming ever more global as Western businesses target the newly affluent in developing countries. And those developing economies, notably India in cricket, are creating powerful sports businesses of their own. Ambitious countries in Asia and the Gulf want their own tennis tournaments and Grand Prix.

The old marriage of media and sport has proved durable because it is so mutually beneficial. What they both get out of it is eyeballs. The sports business is based on the idea that people are willing to pay to watch others play, and television expands the audience vastly, from thousands inside the stadium to millions outside. For broadcasters, more eyeballs mean more subscribers and advertisers. And sport is one of the few things that still has people tuning in by the million.

How do you view?

Jul 31st 2008
From The Economist print edition

Sport and the media are natural bedfellows

BRISTOL, jokes Chuck Pagano, lies in a “demilitarised zone”: halfway between Boston and New York, in territory shared by Red Sox and Yankee fans. Sport is a serious business there—pretty much the only business, in fact. The town of 61,000 people is home to ESPN, a company that has become synonymous with sports broadcasting. With little modesty but no little justification, it styles itself “the world leader in sports”.

ESPN began life in 1979, when American television was ruled by three networks, ABC, CBS and NBC. “Cable television wasn’t even cable television,” says Mr Pagano, ESPN’s head of technology and one of its first employees. Its founder, Bill Rasmussen, wanted to show Connecticut sport to Connecticut people, but discovered a much larger market.

AFP



Boston had the edge

These days ESPN boasts 96m cable subscribers across America. Its broadcasts include “Monday Night Football” and, via ABC, the NBA finals, which in June revived one of the oldest rivalries in basketball, between the Boston Celtics and the Los Angeles Lakers. Boston won; 77m watched.

As sport has globalised, so has ESPN. Granted, it is by no means the leader everywhere, notably Europe. Still, it brings European football to America and 150 other countries. Its flagship show, “SportsCenter”, runs in 13 versions outside the United States, and in five languages. “The sun never sets on ‘SportsCenter’,” says George Bodenheimer, the company’s president.

The upstart ESPN was bought in 1984 by ABC, which was in turn swallowed by Disney in 1996. Some cable subscribers would doubtless remove ESPN and all other sporting works from their bundles if they could. Even so, ESPN’s rise is evidence that betting on people’s appetite for sport, which once seemed eccentric, has paid off.

Scenes from a marriage

The marriage between sport and broadcasters, though long and successful, has been changing in a number of ways. First, the fragmentation of audiences among hundreds of channels has given the most popular sports enormous bargaining power. As the number of channels has multiplied, large audiences have become much harder to find, but sport has retained its ability to supply them. This is true not only in America but just about everywhere. According to GroupM, part of WPP, in 1997 as many as 180 television programmes in Britain pulled in more than 15m viewers. In 2006 only three did, all of them sport. Such scarcity commands handsome fees.

The Olympics are a rare global crowd-puller, along with the football World Cup. According to the IOC, 34.4 billion hours were spent watching the Athens games in 2004, around 1.7 billion fewer than for the Sydney games four years earlier. Whether Beijing beats the Sydney total or dips below the Athens one, broadcasters are desperate to have it. In all, they are expected to pay $1.7 billion for the television rights, $240m more than for the 2004 games and six times what they stumped up for Los Angeles in 1984.

The Olympics are not the richest rights of all. They might be worth more if the IOC aimed to maximise revenue rather than reach. Even so, they probably would not rival those of American football. The climax

of the National Football League's (NFL) season, the Super Bowl (screened by Fox this year), was watched in America by an average of 97.5m people; 148m tuned in at some point. Large numbers also watch games in the short regular season. Even the annual draft of college players, held in April, attracted 3.4m viewers. No wonder, then, that the NFL hauls in $3.7 billion a year from CBS, ESPN, Fox and NBC. It has also been showing eight games a season on its own NFL Network, having fallen out with Comcast, a cable operator which wanted to take them—and passing up perhaps another $400m a year.

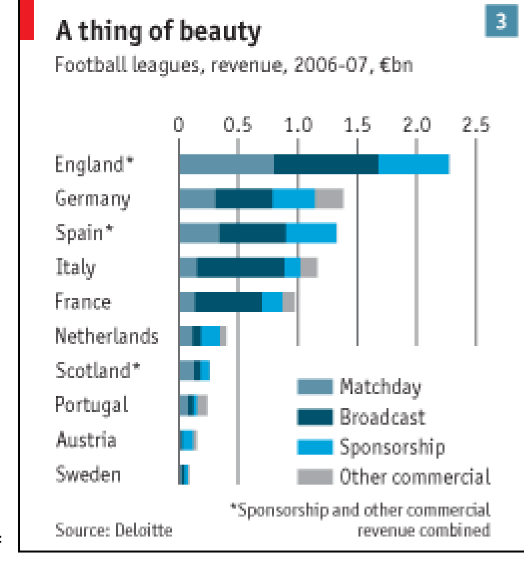
It all adds up

Other American sports do not have the same clout, but still do pretty well. The NBA's national contracts, starting next season, are worth $7.5 billion over eight years. Major League Baseball's (MLB) central contracts are thought to be worth $30m a year to each of the 30 teams. Teams have local deals as well; some own cable stations. The National Association for Stock Car Auto Racing (NASCAR) also takes in several hundred million dollars a year.

The National Hockey League (NHL), beset by strikes and low ratings, has in recent years been a poor relation. But the 2008 Stanley Cup finals, which earned the NHL its best ratings for a while, were a hopeful sign. And soccer at last seems to be getting a firmer hold in America, following the relaunch of the league in 1996 and the import of foreign stars, notably David Beckham, now at Los Angeles Galaxy.

In Europe, soccer—more often called football—rules the roost. The English Premier League rakes in the most by a comfortable margin. For live games shown in Britain it is getting £1.3 billion ($2.6 billion) from BSkyB, part of Rupert Murdoch's News Corporation, which has been showing its matches since the league started in 1992, and £392m from Setanta, an Irish broadcaster, for a three-year deal. It is earning money abroad as well: foreign television now accounts for a quarter of the total, up from 10% six years ago.

Other European leagues have done nicely too, despite the odd stutter. According to Deloitte, an accounting firm which publishes an annual review of the sport's finances, total revenues of the "big five" European leagues rose to €7.1 billion ($11.3 billion) in 2006-07 from €2.5 billion in 1996-97. Most of the increase came from broadcasting. The biggest source of income in all five, it brought in at least 35% of the total everywhere in 2006-07 and €3.2 billion in all. Leagues in smaller countries, with smaller audiences, rely more on sponsorship and other sources of income (see chart 3)—although the Scottish Premier League has recently announced a bumper new television deal. The gap between England and the rest will have widened in the past year, thanks to the new contracts.



Developing countries too are mad about sport. The Chinese have no single preference but spread their passion among basketball, football, badminton and table tennis. Snooker has come up in recent years, thanks to the emergence of a local star, Ding Junhui, ranked 11th in the world. But the broadcasting market remains heavily regulated, dominated by China Central Television (CCTV) and local cable distributors. ESPN, for example, is available in international hotels but not in cable packages for ordinary Chinese.

"The top three sports in South-East Asia are football, football and football," says Manu Sawhney, head of ESPN Star, a joint venture between ESPN and News Corporation. There is a lot of demand for local leagues, but growing interest in the best European games too. "The top three sports in South Asia", Mr Sawhney adds, "are cricket, cricket and cricket."

Any broadcaster who wants viewers in India, which has upward of 350 channels, must be able to offer them a dose of the national religion. The scramble has been getting frantic. Two years ago Nimbus, a media and sports marketing company, paid $612m for the rights to India's international matches and domestic cricket until 2010. ESPN Star shows events staged by cricket's global governing body, including World Cups; it paid more than $1 billion for the global rights between 2007 and 2014. Zee TV, another broadcaster, started its own competition, the Indian Cricket League, last year. The sport's national governing body, the Board of Control for Cricket in India, responded with its own Indian Premier League. Yet another cricket-hungry broadcaster, Sony Entertainment Television, bought the rights for $1 billion for ten years, a sum that will

rise as the league expands.

The second change in the relationship between sport and broadcasters is related to the first. Fragmentation may have made big audiences rare and valuable, but it also suggests that there is a "long tail" of small audiences to be served. New channels and new media have provided the capacity to give them what they want.

The long tail, you might say, is where ESPN started, with Mr Rasmussen's Connecticut Huskies and Hartford Whalers games. Comedians feasted for years on the obscurity of ESPN's output. "We exploited the long tail because we had no choice," says Mr Bodenheimer. "Now we've looked to other ways to serve the tail"—most obviously online, where several sports are streamed live.

Nasty, brutish, but sport

If people are willing to pay, just about anything can find a niche, on television or online. Among the most successful recent arrivals is mixed martial arts, a combination of boxing and ju-jitsu. The leading league, Ultimate Fighting Championship, has a dedicated following on American pay-per-view television, and has been gaining fans through live shows and television in Europe too. Some leagues have been on cable and network television in America, but advertisers are shy of real blood. The fights are fierce but brief: the referee will step in and stop the bout quickly when a combatant is pinned down and taking blow after blow to the head.

The Olympics will allow broadcasters to show off their ability to present lots of sport simultaneously. They used to be limited to one event at a time. Now they can put several on at once, using digital channels and websites, as well as making highlights available online for days afterwards. Fans of judo should thus be as easy to satisfy as those of the 100-metre sprint. CCTV will show the whole of the Olympics on digital platforms. NBC, which has the American rights to the games, plans to show 3,500 hours of Olympic sport online, 2,200 of them streamed live.

The third change is that technology has made it possible to cover all sports, but especially the most popular, in far more detail—meaning better pictures as well as more information. High-definition television does more for sport than for many other genres: you may not want to see a newsreader's wrinkles, but it could be fun to watch the grass ruffled by the wind or the beads of sweat running down Kobe Bryant's face. In June ESPN's rating in households with high-definition television was 50% higher than in those without; once people switch, they don't go back.

Viewers are being offered more information than ever before. For generations, football commentators have gushed that a player "has covered every blade of grass". Now fans can judge for themselves: in the Euro 2008 final, Spain's Cesc Fabregas ran nearly 8km (nearly five miles) before being substituted in the 63rd minute. Thanks to a company called Sportvision, followers of American football have for several years been able to see a virtual "first and ten" line—the point the team in possession must reach in order to keep the ball. In motor racing, you can see how fast a car is going, whether the driver is using the brake or the throttle and a host of other data.

And that is before you turn to a website, to read all about it as well as to watch. People now expect to be able to find anything instantly, and they are not disappointed. In January this correspondent, sitting in a Swiss hotel bar, thought nothing of looking up the BBC's site on his mobile phone and following, penalty kick by penalty kick, as Bristol Rovers dumped Fulham out of the FA Cup—to his great joy.

Broadcasters' sports websites now contain virtual acres of news and columns, plus plenty of video and sound. In 2007 ESPN bought Cricinfo, the world's leading cricket website, based in Bangalore. John Kosner, head of the company's digital businesses, says it would like "a Cricinfo for every sport". Elsewhere in ESPN's digital empire, a blog by Stephania Bell, a physical therapist, analyses the injuries of American sportsmen. Most readers are players of fantasy sports, make-believe leagues based on real-life performances.

The fourth change is the blurring of the old demarcation lines between broadcasters and providers of sports. The NFL and the NBA have their own networks. Some baseball teams have owned regional broadcasters for a while. The internet has accelerated this trend. This is plainest in baseball, where MLB.com streams live coverage of every game. Television contracts stop fans watching their local teams, so the main beneficiaries are exiles. But the potential for sporting bodies to become broadcasters is clear.

Some broadcasters are worried by this trend. “It will be an issue,” says Tony Vinciquerra, president and chief executive of Fox Networks Group, although more for his regional sports networks and cable affiliates than for Fox’s broadcast network. “The more platforms you put the stuff on,” he says, “the less valuable it is to us.”

But not all sports providers are exploiting the internet. And not all broadcasters are bothered. In ESPN’s agreement with the NBA, says Mr Bodenheimer, “we acquired the rights to platforms that don’t yet exist.” Despite the prospect of changing technology, contracts are getting longer as well as less specific: “now six, eight, ten [years] don’t raise eyebrows.”

Broadcasters are blurring the lines too, by becoming providers of sport. Zee TV has done this with cricket (although Kerry Packer, an Australian media baron, did it on a grand scale 30 years ago). ESPN’s interests include X Games, which range from snowboarding to freestyle motocross. This has been going for 14 series in America, and has just been staged and shown in Shanghai for the second time.

A fifth change is that the virtual world has started to intrude into reality. Electronic games have almost become sports in themselves, with world championships of their own. They have also changed the way people follow the real thing. Peter Moore, president of EA Sports, part of Electronic Arts, a games company, says that some gamers like to recreate what they see during live NASCAR races in video games, using online information about speed, drag, tyre pressure and so forth to recreate, in a virtual world, the real-life action. More than a few people learn about sport by playing the video-game version rather than by running around the playing field.

What people can see in games may also affect their expectations when they watch live sport on television or online. No camera for that angle? Use a computer-generated picture. What went on at that play? Find a way of getting closer to the action, as you can in the electronic world.

By and large, technological change has made sport much more fun to follow, and better to watch at home. It has also made sport a much more lucrative business and a far better-paid occupation. And in recent years another old relationship—with sponsors—has become more fruitful too.

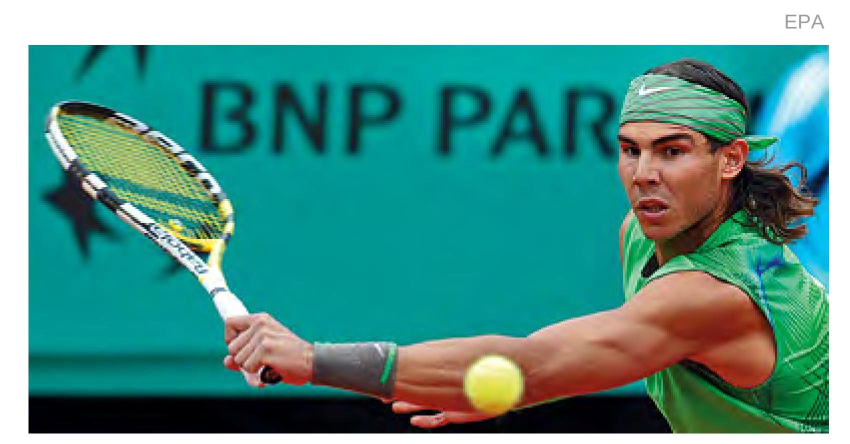
Economist.com SPECIAL REPORTS

Sponsorship form

Jul 31st 2008
From The Economist print edition

The value of sport to other kinds of business

EPA



Virtually perfect. Bank on it

ON ARRIVAL at the gleaming new Terminal 3 of Beijing airport, you may be greeted by China's most famous sportsmen: Mr Yao, the basketball player, and Liu Xiang, who won gold in the 110-metre hurdles in Athens. They are not there in person, of course, but beam from advertisements for Visa, "the only card accepted at the Beijing 2008 Olympic games".

The credit-card company is one of the Olympics' 12 leading sponsors, which between them have paid $866m for a four-year association covering the Turin winter games in 2006 as well as the games in Beijing due to start next week. That is about $200m more than the previous set of deals, for Salt Lake City and Athens, which involved 11 companies. Few events enable companies to reach so many people around the world—even though sponsors are not allowed to put their names on advertisements at Olympic venues.

Teams and individuals have plenty of sponsors too: Mr Woods's talent and image are worth many millions. But events have the edge. Back a team, says Michael Stirling of Global Sponsors, a consultancy, and you may risk alienating opposing fans. If an individual sports star behaves badly, he or she may damage your brand.

There are only two "marquee-property" events on the planet, says Antonio Lucio, Visa's chief marketing officer: the FIFA World Cup and the Olympics. He is delighted to have both of them. Indeed, the ruckus caused by the defection of FIFA, football's world governing body, from MasterCard to Visa is one measure of the importance companies place on sponsorship deals. MasterCard sued FIFA. Last year it accepted $90m in compensation.

These days it might cost €150m to sponsor the UEFA Champions League, the club championship of European football, for three years, or as much as $70m to back a Formula One (F1) team for a season. And all that buys is the right to use the name of an event, a team or an organisation. "Activation"—promotions, competitions, television advertising during breaks, corporate hospitality and so forth—might multiply the sponsor's budget two or three times over, and it is vital. "In sponsorship it's not what you have, it's what you do with it," says Joe Tripodi, chief marketing officer of Coca-Cola. "It's all about activation."

Fortunately the costs of activation can be shared. Mr Tripodi points out that the efforts of bottlers and retailers, who also stand to gain from the sale of more fizzy drinks, can increase spending on activation to perhaps ten times the initial outlay. A similar multiplier effect applies in the credit-card business. Card-issuing banks carry out their own promotions, such as running direct-mail campaigns or competitions among bank tellers.

The sums spent on the biggest sponsorships now have to be justified at board level, says Nick Massey, chief executive of Octagon, a sports-marketing firm. They are comparable with the cost of building a new factory, or even buying another company (see chart 4).

Mutually beneficial 4

Biggest sport sponsorship deals, 2007, by value

Sponsor	Object of sponsorship	Estimated total value of deal, $m	Length of deal, years
Barclays	New Jersey Nets' basketball arena	400	20
Adidas	German national football team	298	10
Adidas	London Olympics 2012	200	5
Lenovo	Williams Formula One	190	5
EDF Energy	London Olympics 2012	160	5
Lloyds TSB	London Olympics 2012	160	5
Fiat	Juventus football club	134	3
Aegon	Ajax football club	121	7
Prudential	New Jersey Devils' ice hockey stadium	105	20
Panasonic	Official worldwide Olympic partner	100	8
Johnnie Walker	McLaren Formula One	100	5
Nike	Tiger Woods	100	5

Source: info@theworldsponsorshipmonitor.com

Sponsorship is still dwarfed by advertising: WPP estimates that global spending on all forms of sponsorship amounted to $38 billion last year, against $449 billion on advertising. But sponsorship is growing fast, rising by 11% a year for the past decade, according to Lesa Ukman, chairman of IEG, a consultancy that is part of WPP. Deborah Hughes, head of global sponsorships at MasterCard, says that sport accounts for 85% of the credit-card company's sponsorship budget.

There are three main reasons why companies find it worth their while to sponsor sport. First, says David Wheldon, Vodafone's global brand director, "the emotional connection with people is what is valuable." So Vodafone has put its name on Manchester United's shirts in the past and is now the main sponsor of the McLaren F1 team—although, after three years, the company is ending its association with the UEFA Champions League. "Delighted with it," says Mr Wheldon, but "we looked hard at whether it's giving us a balanced portfolio." Vodafone is swapping football for music: the mobile phone has become to the rock concert of the 21st century what the cigarette lighter was in the 1970s. Others are sticking with sport.

Second, sport can help solve an old problem with advertising: companies know that half the money they spend on it is wasted, but they don't know which half. Sport can reach the right people, sometimes with remarkable accuracy. Sir Allen Stanford, the eponymous head of an American wealth-management firm, has for many years used sporting events to woo the rich people he has identified as potential clients. His company backs yacht races, polo matches and golf tournaments at which its financial advisers can get to know the people they are after. Within a few weeks of such an event, he says, he knows his return on the investment.

Sir Allen likens his method to using a rifle rather than a shotgun. Not all companies can take such precise aim, but Sean Jefferson, chief executive of MindShare Performance, WPP's sport and entertainment consultancy, says it is "a very efficient way of reaching upmarket men", a group marketers consider difficult and expensive to hunt down. Advertising during the biggest sporting events is pricey. The cost of a 30-second television slot during this year's Super Bowl was $2.7m, and Mr Jefferson says the UEFA Champions League final is becoming a European equivalent. But 60% of upmarket men actively avoid ads: advertisers must pay to be first in a break if they want a chance of catching such people. Sponsorship can get them there.

Third, rights holders have realised that they own something scarce, and are doing their best to make it scarcer still. All around the sports industry you hear the same motto: less is more. With fewer sponsors, valuable properties become more exclusive and the price of being associated with them can be driven up.

In this respect, the Olympic sponsors may be getting a bargain. By recent standards, a group of 12 is on the large side. FIFA, for example, has cut the number of official World Cup "partners" from 15 to six. In cricket, the Indian Premier League decided from the outset that it would limit the number of sponsors. "If

you restrict supply, you drive up price," says Andrew Wildblood of IMG, a leading sports, entertainment and media company, who worked with the Indian cricket authorities in setting up the league.

The sums involved make it increasingly important to spend wisely, both on acquiring a property and on activation. Properties have to be chosen carefully. If they do not earn a return or have served their purpose, they must be dropped. And the return on sponsorship has to be measured as accurately as art and science allow.

Made to measure

In choosing what to sponsor, marketing executives often aim to match the event to the image of their brand. Coca-Cola (the drink, rather than the firm) has what Mr Tripodi calls "a ubiquity strategy". The company's other brands get more tailoring. Coke Zero is aimed at a young, male clientele, hence its association with NASCAR. Diet Coke, which feels a little more female, is linked with the Oscars. Sprite, a lemonade with an "edgier, more urban" image, at least in North America, has a tie-up with the NBA. Some sponsors even create events in their own image. Red Bull, a drinks brand, is presenting air races in nine cities around the world this year; Nike, a sportswear firm, is holding 10km road races in 25 cities at the end of August.

Sponsorship can also be used to shift perceptions of a brand. Ms Ukman points to BNP Paribas, a big French bank and a leading sponsor of tennis. Hoping to attract more young customers, the bank teamed up with Sony PlayStation to create a virtual tournament during the French Open in 2005, 2006 and 2007. The final 64 players went to Roland Garros, home of the Open, to fight out the last few rounds.

Geographical factors also play a part. Ms Hughes at MasterCard says that sponsoring the Mumbai Indians, one of the teams in the IPL, was a natural choice because Mumbai is India's financial capital. Conversely, Vodafone is dropping its sponsorship of the Derby, a classic British horse race, because it reckons it is probably as well known in Britain as it can be. Visa, says Mr Lucio, found that the Rugby World Cup did not give it the global reach it was looking for: football and the Olympics bring in customers from more countries.

Marketing executives and agencies say that measuring the return on sponsorship has become much more accurate in recent years. Broadly, it can be divided into two parts: the value of simply having the company's name put in front of more people, mainly on television; and the effect on sales. The first of these is the fuzzier part. In essence, companies track how long their logos or names are on screen—when, say, their perimeter boards are caught on camera. Then they work out how much it would cost to buy that amount of advertising time. To that sum, they apply a deep discount factor, perhaps 90%: after all, the viewers are not really watching the perimeter boards but the match. The resulting number is the company's estimate of what the exposure is worth.

The second, more accurate part depends largely on how much activation companies do and how good at it they are. The degree of precision has increased, especially for companies close to consumers. A fizzy-drinks firm or a credit-card company, after many years of sponsorships and activation programmes, has a pretty good idea of the extra sales such things will generate. For example, if the promotion involves a special display near the front of a shop, "they will know what the value of the display will be," says Mr Massey. "That is very quantifiable, and will allow them to achieve their return on investment." With so much money at stake, the sums have to be right.

Go Aigo

Jul 31st 2008
From The Economist print edition

How one Chinese company is making a name for itself

Getty Images



The world's fastest billboard

THE most prominent name on Lewis Hamilton's car, firesuit and helmet is, naturally, Vodafone. The British mobile-phone company has paid many millions of pounds so that the F1 team for which Mr Hamilton drives can be called Vodafone McLaren Mercedes. But Mr Hamilton also carries several other corporate logos, including that of a Chinese company which, as eagerly as any other, is using sport to promote its brand.

The brand in question, visible on the left breast of Mr Hamilton's firesuit, is Aigo, the trade name of the Beijing Huaqi Information Digital Technology Company. Huaqi claims that Aigo is China's biggest-selling make of MP3 player, as well as the leader in mobile storage (memory sticks and portable hard drives) and number four or five in digital cameras. Its president, Feng Jun, founded the company in 1993, when he sold keyboards, taking a profit of only five yuan (then around 90 cents) apiece to encourage distributors to sell lots of them.

F1 is Mr Feng's way of bringing Aigo to the world's attention. Song Chao, a company spokesman, says that the firm shifted 40,000 cameras in one deal in Spain, thanks to its association with Fernando Alonso, a Spanish driver (and bitter rival of Mr Hamilton's) who left McLaren last year. Mr Feng hopes that the F1 sponsorship will help it find a British distributor. It is generating some interest, says Mr Song.

Closer to home, too, Aigo is using motor sport to promote itself, backing a team with a Chinese driver, Cheng Congfu, in A1GP racing. But the company and its boss are also hugely enthusiastic about the Beijing Olympics.

Mr Feng carried the Olympic torch in Athens on March 24th, the day the relay began—the first person from China's high-tech sector to do so, says Mr Song proudly. Aigo is supplying materials to the Olympic media centre. It has also created a new kind of guide to the Olympic museum in Lausanne: place an electronic "Aigo pen" on a picture of an exhibit, and you will hear a description in English or Chinese. It has also printed books about the Olympic movement for which the Aigo pen supplies an instant translation.

English, indeed, is another of Mr Feng's enthusiasms. With Crazy English, a group that teaches the language in an unorthodox manner (which seems to involve a lot of shouting), Aigo has formed a subsidiary to train Chinese volunteers to guide visitors to the Beijing games. In the company's office, too, English is encouraged. "Let's Speak English to Make Aigo Dream Soar High," proclaims a notice on the door of the English Meeting Room, before giving stern warning of "a donation of 50 yuan to whoever not speaking English inside".

Local heroes

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From The Economist print edition

Sporting labour markets are becoming global. But what about sports themselves?

THE weather is perfect, with just enough breeze to freshen a warm June evening. Shea Stadium is bubbling this Friday night, with fans and food vendors, music and pre-game presentations. On the big screen the New York Mets introduce themselves: Jose Reyes, shortstop, from the Dominican Republic… Carlos Beltran, centre fielder, Puerto Rico…Endy Chavez, right fielder, Venezuela…Oliver Perez, pitcher, Mexico.

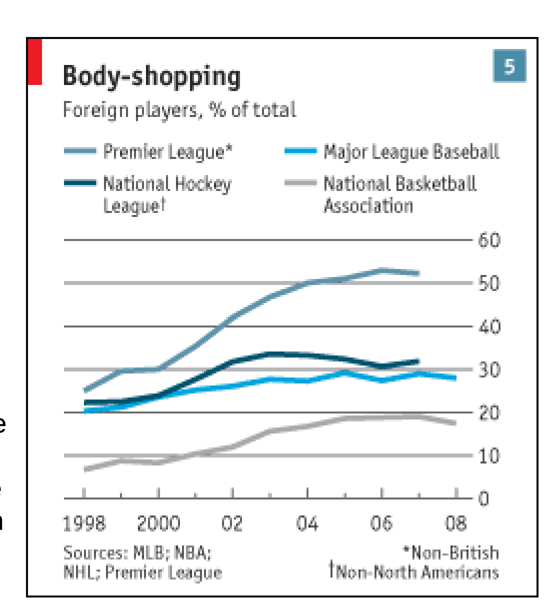
Mets fans have had a frustrating season, with rather fewer wins than losses. By Tuesday, the team's manager will have been fired. But tonight they leave Shea unusually content. The Mets beat the Texas Rangers 7-1. Mr Perez pitches solidly and bats in two runs. Mr Beltran and Mr Chavez both score one and bat one in. The speedy Mr Reyes scores two and steals his 24th base of the year.

What is not unusual is the Mets' cosmopolitan make-up: six of the nine starters were born outside the United States. The Mets are a prime example of the globalisation that has swept through sport's labour markets in recent years. Now many sports are trying to pull off a more difficult trick: globalising their product markets too.

Start, though, with labour—and with baseball. In recent seasons, the proportion of players in the major leagues who were born outside America has been nearly 30%, up from 20% ten years ago. Dominicans are the biggest group, followed by Venezuelans. There are several Japanese players, and New York's other team, the Yankees, has a star Taiwanese pitcher.

In the minor leagues the proportion is even higher: close to half. Among the legionnaires is Loek van Mil, a Dutch pitcher who stands 2.16 metres (7'1") tall. If he fails on the mound, he might want to join Mr Yao playing basketball: in recent years foreigners have accounted for around 80 of the 430-odd players on the NBA's rosters. In ice hockey, North Americans no longer think Europeans too weak, with sticks or fists, for the NHL. Over 30% of NHL players come from outside America and Canada. This year's Stanley Cup winners, the Detroit Red Wings, were captained by Nicklas Lidstrom, a Swede and one of 13 Europeans in a 28-man roster.

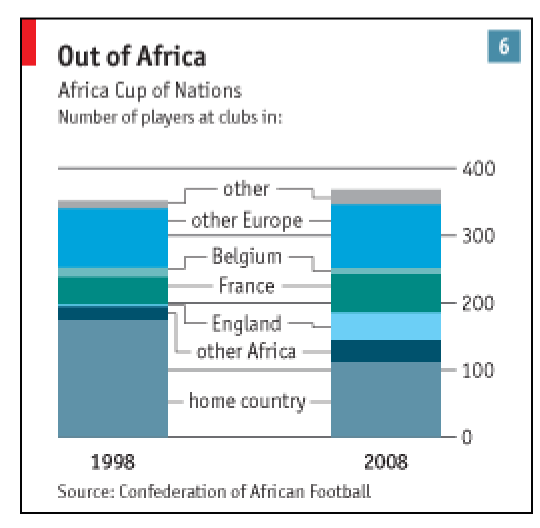
In other sports a global labour market may seem less of a novelty. English cricket has long relied on the old empire. In football, the Italian and Spanish leagues were graced by several fine foreign players in the 1950s and early 1960s. Both countries then banned foreigners in the hope of helping their national teams. Spain's ban was lifted in 1974 and Italy's in 1980.



Thirty years ago, when Tottenham Hotspur, a London football club, signed two members of Argentina's World-Cup-winning squad, English fans marvelled at such boldness. Now imports are so common that FIFA and UEFA, the governing body in Europe, would like to cap them, but under European Union labour law players must be able to move freely between member states. The transformation in England, with the richest television contracts in the sport, has been remarkable. More than half the players in the Premier League are from outside Britain, up from one-quarter ten years ago. English clubs employed almost one-eighth of the players in the Euro 2008 tournament this June, even though the national team failed to qualify. Only German clubs were better represented.

The supply side of football's labour market has shifted too. Brazil has long been a big exporter. Most of the clubs in this year's Asian Champions League, for instance, have at least one

Brazilian. Over the past decade or so there has been a scramble for Africans. French and Belgian clubs had been using Africa as a cheap source of talent for years, but lately the English have been keen buyers, often via Belgium or France, of such talents as Ghana's Michael Essien and Togo's Emmanuel Adebayor.



Ten years ago just under half the players at the African national championships played in their own leagues and two-fifths were with clubs in Europe. Of the 146 men involved, 41 worked in France and only three in England. At this January's tournament, less than one-third were with domestic teams, mainly in north Africa. Well over half were working in Europe: 202 in all, 57 of them in France and 41 in England (see chart 6).

Virtuous circle

It is not surprising that sport's labour markets are globalising. The most talented people are gravitating towards the richest employers, whose ability to pay has been enhanced further by juicy television contracts. In turn, the best players make the sport more enjoyable to watch, bringing in more fans and more revenue.

The television money and fan base attract capital too. The globalisation of sport's capital markets may not have gone as far as that of its labour markets, but it is under way. Several English football clubs are owned by foreigners, among them owners of American baseball and football franchises. In cricket, one franchise in the Indian Premier League has owners based in Australia and Britain.

Now several sports—and sports leagues in particular—are trying to expand their product markets beyond their borders as well, by staging games abroad. This is easier said than done. Sport, says Andrew Zimbalist, an economist at Smith College in Massachusetts, is different from other industries: "You can't produce your product in one country and sell it in another. You can do it with laptop computers, but you can't do it with a game."

It is possible to export sport indirectly, by selling media rights. Most globalising leagues hope to make their money from fans in front of television sets rather than inside stadiums, and games abroad are one way of building a brand. But it may not work, because local loyalties matter. "It's hard to get people interested in a baseball team on the other side of the world," Mr Zimbalist says. "It's an emotional thing."

There are other potential obstacles. American football, for example, is not played much outside America and requires a lot of explaining. Soccer needs no introduction, but any league wanting to expand abroad faces another problem. Under FIFA rules it needs the permission of the national association of its host country. That association may well want to protect its own league from imports.

None of this is putting off prospective exporters. "US sports are rushing to get first into globalisation," says David Stern, commissioner of the NBA. All of them, he explains, try to make money in roughly the same ways: by staging events, including games; by building television audiences; through digital media; through marketing partnerships; and by selling merchandise. European football and its top clubs are doing much the same thing, with the English to the fore.

Would-be globalisers have a success story to ponder: F1 motor racing, which has been stretching from its old haunts in western Europe, the Americas and Japan towards the fast-growing economies of the Middle East and Asia. This year the United States Grand Prix (GP) was dropped from the calendar. One race is scarcely enough to compete with NASCAR, and other countries have been eager to get their own GPs.

A Malaysian GP was added in 1999; races have been held in Bahrain and China since 2004 and in Turkey since 2005. In September the first Singapore GP—and the first F1 race at night—is due to take place. India, which already has an F1 team, is due to stage its first GP in 2010. According to Bernie Ecclestone, F1's boss, races in Russia and South Korea may follow.

"We go where the markets for the manufacturers are," Mr Ecclestone noted last year, "where they are going to sell their cars in the future." The sponsors whose logos festoon the cars and drivers' firesuits are doubtless pleased to see the sport spreading around the world. And there are no protective local

federations to worry about. On the contrary, more countries seem to want the glamour of their own GPs than can be fitted into the calendar.

On the face of it, American football has much in common with F1. It already has dedicated fans in its main target market (Europe, and chiefly Britain). It is seen as an upmarket sport. The NFL faces no protected competitors abroad, and its product is scarce. The NFL's 32 teams play only 16 regular-season games each; those that reach the Super Bowl play a further three or four. Almost all games sell out. Ten teams have a 25-year waiting list for season tickets.

How to go global

One big difference, though, is that F1 is already a global sport, whereas American football is not, and past efforts at exporting it have stuttered. Lots of exhibition matches have been played. In the 1990s the NFL set up a European league, which is now defunct. It has decided that there is no point in offering second-rate fare. "It's got to be the NFL," says Mark Waller, the Briton who oversees the NFL's international operations. "It can't be the European league."

So last October the NFL went to Wembley Stadium in London, where the New York Giants (eventual winners of the Super Bowl) beat the Miami Dolphins 13-10. This year it will bring the New Orleans Saints and the San Diego Chargers to Wembley. Last year's game was a sell-out. When tickets went on sale this May, 40,000 were snapped up within 90 minutes.

AFP



From Accra to London via Lyon

Though a great treat for Londoners, the NFL's jaunts abroad are less fun for fans of the "home" team (the Dolphins last year, the Saints this time). Unless they can afford a foreign trip, they must forgo one of only eight regular-season home games. Mr Waller admits this is a problem. "We've got to find a way to get more games," he says. His preference would be to add an extra game for everyone, to be played on neutral ground. That would be fair on all the teams, and there would be 16 games to be spread around: perhaps in Toronto (where the Buffalo Bills are already due to play once a season), Mexico City (where a game was staged in 2005) or American cities without an NFL team, as well as London. New venues might see four games a year.

Meeting pent-up demand in America may prove easier than generating new interest abroad. Still, the test for the NFL is whether live games bring in more British enthusiasts who will stay with the sport. To fans, the game's technicalities are part of the attraction. The problem is to get newcomers hooked. The NFL has always used television inventively, and Mr Waller thinks that high-definition television, in combination with its website, can help to explain the game to newcomers by getting them close to the stratagems and the sweat. "The only way you could do that before was to get on a field. You can do that all digitally," he says.

MLB and the NHL may be luckier, in that they have more games to spare and are preaching to the converted. The NHL plans four regular-season games in Prague and Stockholm at the start of next season. MLB first went abroad in 1999, to Mexico. This season began with a series between the Boston Red Sox and the Oakland Athletics in Tokyo. Next year will see the second World Baseball Classic, a sort of baseball world cup, in which many MLB players take part.

Mr Stern's NBA played regular-season games in Japan 18 years ago. Now, all its foreign games are friendlies. Yet it may be best placed of all the ball-playing organisations to build a business abroad—notably in China. Basketball is already popular, roughly on a par with football, according to CSM Media Research in Beijing. It is also simple to play, and the Chinese government has a five-year plan to put a basketball court (and a table-tennis set) in every village. The Olympic baseball stadiums in Beijing are only temporary structures. The nearby basketball arena is anything but.

Home-grown attractions

Better still, in Mr Yao the NBA has a local hero who draws in viewers by the million. It also has another Chinese star in Yi Jianlian, now of the New Jersey Nets. Its games are shown on CCTV's main free sports channel and it has another 50 television deals in the country. Not everything is predictable: during the three-day mourning period for the Sichuan earthquake, CCTV took the NBA playoffs, along with other forms of entertainment, off the air and resumed coverage only slowly afterwards—albeit in time for the finals. Earlier this year the NBA sold 11% of its Chinese subsidiary to a group of five investors, including ESPN, for $253m. Eventually, thinks Mr Stern, there may be potential for the NBA to form a partnership with a Chinese enterprise to launch an NBA-affiliated league. Expansion to Europe is also on the horizon.

Of all the leagues with grand globalisation plans, the Premier League has probably caused the most fuss. Its Asia Trophy has been staged every other year since 2003. Now it is wondering how to expand its activities abroad. Earlier this year Richard Scudamore, the league's chief executive, floated the idea of an "international round", to be played in the middle of the season, in which all 20 teams would play an extra league match abroad with points at stake. This caused uproar.

Getty Images



A starring role for Yao

One reason was that English fans cherish the symmetry of their football leagues: every team plays every other one twice, once at home and once away. The international round would upset that symmetry. (American sports leagues, by contrast, typically have unbalanced schedules.) Secondly, the Premier League has to deal with foreign football associations. Perhaps taking umbrage at the lack of warning, the Asian Football Confederation (AFC)—a potential host—said it did not like the idea of the English inviting themselves over. However, it has since softened its tone, saying that the Premier League would be welcome after all.

Mr Scudamore explains that things are still up in the air. "All the clubs agreed to take a look at this over a long period," he says. "The clubs are still keen to see us developing some kind of international strategic play. I sit here not knowing in what variant it will come back, but it will come back." One selling point for some of them may be that foreign games will help financially to even up a lopsided league in which the top four are entrenched. Unlike domestic television revenues, foreign fees are shared evenly among the clubs.

In China, potentially the biggest market, the Premier League lacks the draw of a local star. Zheng Zhi, captain of the Chinese national team, does play in England—but his club, Charlton Athletic, was relegated from the league in 2007. The only Chinese player in the Premier League last season, Sun Jihai of Manchester City, started a mere seven games. He has just moved to Sheffield United, one level below.

Some have also questioned the wisdom of selling television rights for the three seasons to 2009-10 to WinTV, a pay-television company. Mr Scudamore says that WinTV won a tender fair and square, and that it is "doing well from a low base". WinTV says that since it started to show English football its subscriber base has increased "significantly", to nearly 2.5m (some buying its channels singly, others as part of a package). It expects the number to double in 2008-09. People also mocked the sale of domestic rights to BSkyB when the league started, Mr Scudamore says—and look how that turned out.

"If they are going to be interested in sport," Mr Scudamore says of potential fans in emerging economies, "we hope they'll be interested in our sport. If they're going to be interested in our sport, we hope they'll be interested in us." Most would-be exporters of sporting spectacles would no doubt say the same. They offer sport of the highest quality, whereas the standard of play in local leagues is often pretty ropy. But

quite possibly, those fans, just like those in America and Europe, will eventually prefer to see their own local teams—the more so as standards improve.

Already, notes Seamus O'Brien, chief executive of World Sport Group, a sports-marketing firm based in Singapore, games involving national football teams draw far bigger audiences in Asia than do matches beamed from Europe “in the middle of the night”. Mr O'Brien, who counts the AFC among his clients, thinks Asian football associations should treat the game at club level as an infant industry. They should shell out cash on bringing in foreign players—as Western sports have been doing for years, and as Major League Soccer did to bring Mr Beckham to America. He proposes that South-East Asian countries pool resources to form their own regional super-league, which would be stronger than national competitions. There is money to pay for this: the second-placed bids for Premier League football rights in Asia, he says, amounted to $600m.

Eventually, believes Mr O'Brien, “Chinese football will be bigger in England than English football is in China,” because the number of Chinese expatriates wanting to watch games from back home will outnumber their English counterparts. That may be some time off. But in the sports business developed countries no longer call all the shots. The strongest evidence for that comes not from baseball, basketball or football, but from another of the world's great games: cricket.

Cricket, lovely cricket

Jul 31st 2008
From The Economist print edition

And lolly, lovely lolly

LALIT MODI might have written the script himself. Tense to the end, the match was not settled until the stroke of midnight and the last ball. Lakshmipathy Balaji, of the Chennai Super Kings, bowled it: Sohail Tanvir, of the Rajasthan Royals, hit it through midwicket for one run. And with that Rajasthan won the final of the inaugural Indian Premier League (IPL).

No follower of cricket needs to be told who Mr Modi is. As vice-president of the Board of Control for Cricket in India (BCCI), the national governing body, he conceived and now runs the IPL. The sudden arrival and apparent success of the new league has shaken cricket from top to bottom. It is the most vivid illustration in sport of the shift in the global economy from rich countries to the emerging world.

The IPL is bright and brash, mixing India's great sporting passion and Bollywood's glamour, topped with lashings of money. The fun starts with the format: "Twenty20", a short version of cricket in which each team bowls 20 overs (sets of six balls). Matches last three hours or so, about as long as a baseball game—just right for an evening's entertainment. By contrast, international Test matches, the purist's favourite form, can take five days.

Twenty20 is not Mr Modi's invention. It was devised in England in 2003, as a way of reviving interest in county cricket—as, in the 1960s, was "one-day" cricket, now usually 50 overs a side. Twenty20 was not the settled choice when planning for the IPL began in earnest, as Mr Modi and IMG's Mr Wildblood talked over a cup of tea at Wimbledon last July. The shortest form had not yet caught on in India.

That changed with the first World Twenty20 Cup, held in South Africa last September. Millions upon millions watched India beat Pakistan in the final. A photograph in "Wisden", the bible of cricket, shows India's players parading the trophy back in Mumbai. You can scarcely see their open-top bus for the throng.

The next departure from tradition came with the teams: not the usual 26 state-based units of Indian cricket but a mere eight city-based "franchises" created specially for the IPL. Scarcity created value. In January the franchises were auctioned for fees ranging from $67m (for the Jaipur franchise, which became Rajasthan Royals) to $111.9m (for the Mumbai Indians). The sale raised $723m.



Sohail Tanvir's royal flourish

"We couldn't have asked for a better dream list of owners," says Mr Modi. And indeed both Bollywood and business did him proud. One film star, Shahrukh Khan, co-owns Kolkata Knight Riders. Another, Preity Zinta, together with her boyfriend, Ness Wadia, an industrialist, is an owner of Kings XI Punjab, in Mohali. Mumbai Indians belong to Mukesh Ambani, head of Reliance Industries; his brother Anil, of Reliance Communications, is said to want a team too. Vijay Mallya, boss of United Breweries Group and Kingfisher Airlines, owns Bangalore Royal Challengers.

Mr Modi had already signed up dozens of the world's leading cricketers—"the critical aspect for us," he says. They were auctioned too, in February, with an auctioneer from Britain wielding the gavel. Undignified? The IPL's human lots had few complaints. Mahendra Singh Dhoni, Indian cricket's latest pin-up, went to Chennai for the top price, $1.5m. The franchises' total spending was capped at $5m each.

The money for the IPL is coming mainly from television. Mr Modi reckoned he could raise $1 billion for ten years' worth of rights, and did. The franchises get 80% of the league's television revenues in the first two years, declining to 50% from year 11. They also receive 60% of central sponsorship for the first ten

years and 50% thereafter. That largely explains the scale of their bids. Over time, they will have to generate their own money from sponsorship, licensing and so forth, some of which will go back into the central pot.

That's entertainment

On the field, Bollywood and business finally met bat and ball. The stars were there, and scantily clad dancers celebrated boundaries and wickets. With good players there was sure to be good cricket: encouragingly, several young Indian players, as well as the big stars, performed well. But to the purist, in Twenty20 too many bad shots get runs and bowlers are too easily flayed. Batsmen expect to rattle up seven or eight runs an over, against three or four in Tests. It is a bit like comparing a novel, which unfolds chapter by chapter through twists and turns, with a five-minute cartoon. But the IPL is sport, not art; and besides, not all cartoons are dross.

"I was very sceptical about whether it would succeed," says Ramachandra Guha, a historian and author of "A Corner of a Foreign Field", a social history of the game in India. "I don't much care about it as a form of cricket, but as a business model it's turned out better than expected." Certainly the league, screened every evening in a prime slot at 8pm, pulled in viewers, with women as well as men watching. In a survey carried out in franchise cities for the *Economic Times*, more than one-tenth of respondents said that they had cut back on going to see films or eating out (the main alternatives in Indian cities to a night in front of the television) in order to watch the IPL. Cinema-going in Mohali was reckoned to be down by almost half.

Television ratings told a similar story. According to TAM Media Research, a ratings firm, the 58 matches up to the semi-finals attracted an average of 4.7% of the 72m Indian households with cable or satellite television. The final rated 9.8%, and drew an audience of 36m people. This is good going in a country with over 350 channels. L.V. Krishnan, TAM Media Research's chief executive, says that leading soaps typically get ratings of 3%, while the finals of reality shows might touch 5%.

Innovation, then, seems to be winning the fight with tradition. In the battle of new powers and old, the new—represented by India—is also coming out on top. India has hundreds of millions of cricket lovers, far more than any other country. As their purchasing power grows, so does their value as television viewers. And that provides the wherewithal to pay cricketers more than they have ever been paid before.

Other cricketing countries are having to get used to India's heft. It has been an awkward customer in cricket politics for a while. Without the BCCI's support, Zimbabwe would surely have lost its full membership of the International Cricket Council (ICC), the global governing body—and with it money from the ICC, $11m last year. The game in Zimbabwe is, not surprisingly, a financial shambles and a political scandal. Even South Africa's cricket authorities, previously staunch supporters, have cut ties with their neighbours. But India has tended to back Zimbabwe; and Zimbabwe is happy to vote with India at the ICC.

The IPL makes India's strength plainer than ever. It will probably upset the structure of the global game more than did World Series Cricket (WSC), a breakaway organisation started by Kerry Packer, an Australian media mogul, in the 1970s. WSC drained players away from Tests; but when Packer and the authorities made their peace, players went back to official cricket—which in turn adopted some of WSC's innovations, such as day-night games.

The IPL seems to be disrupting the game for good. This year's league ran from April 18th to June 1st, after the regular Indian season. That cut across the first month or so of the English season. Next year a clash is looming between the IPL and a tour of England by Sri Lanka, which has several players in the league—and which says that those players may play in India instead. There may be further difficulties if, as Mr Modi intends, the IPL grows, with more franchises and (perhaps) a second competition later in the year.

This year only one Englishman took part in the IPL; West Indians, Australians (who were touring the Caribbean) and New Zealanders (heading for England) had to leave early, with some Kiwis turning up in England well after the tour had started. In future, the world's leading players—including England's best cricketers—will want their diaries free for the IPL. The rest of the cricketing calendar will eventually have to adjust. "It is no longer correct to speak of the 'globalisation' of cricket," says Gideon Haigh, an Australian writer on the game; "we face the 'Indianisation' of cricket, where nothing India resists will occur, and everything it approves of will prevail."

Whatever happens, English cricketers will not miss out on cricket's growing cash pile altogether. Thanks to an American, a select few could become very rich. Sir Allen Stanford (who also has Antiguan citizenship) is putting up $20m in prize money for each of five annual Twenty20 games between England and a West Indian team bearing his name. To give the contests extra zing, the winners will take the lot. As if to illustrate cricket's new style, Sir Allen arrived at Lord's, the grand old home of the game, in a helicopter for the launch—and $20m in cash was brought onto the stage.

Now the English season is being restructured to fit in more Twenty20 cricket. In July the England and Wales Cricket Board, the national governing body, said that a new league would begin in 2010. Unlike the IPL, it will have no new franchises but will contain the 18 traditional county clubs, plus two teams from abroad. Running in the English summer, it too should be able to attract leading foreign players. How much money and interest it will generate from television at home and abroad (might Indian viewers watch games from England, going on late into the night?) is yet to be discovered.

Where all this will end, no one knows. "At the moment," says Mr Haigh, "cricket is terribly confused." But the IPL seems to be here to stay. Admittedly, it is easy to find fault with the league—and not just out of distaste for crash-bang Twenty20, the dancing girls, the money and the glitz. It picked unnecessary fights with news agencies and with Cricinfo, the game's leading website. Its own website was poor. A lot of tickets were given away, some to well-connected people, some just to get folk in. The marketing efforts of most teams were hopeless, with Mr Khan's Kolkata a glowing exception.

But people watched, and in the sports business that is what counts. Indian newspapers gave the league lots of coverage, on the front pages as well as the back. Giving tickets away may not have been a bad investment if the sight of full stadiums told people at home that they were watching something that mattered. At the outset, it was thought that the franchises would take three years or more to break even. Now Manoj Badale, co-owner of the successful Rajasthan Royals, says, "I think it would be fair to say that break-even expectations have been revised forwards a year or two."

Now for the boring bits

Organising a competition at such speed, involving 59 games in 44 days and relying on India's creaking infrastructure, was no small achievement. And making a popular success of a domestic cricket competition anywhere in the world is no mean feat either. Indian enthusiasm has hitherto been reserved for the national team.

Suhel Seth, head of Counselage, an Indian marketing consultancy, says that the hard part for the IPL and its franchises started when play stopped. The question is how to maintain fans' interest when there are no matches to watch. European football clubs, for example, can go on tour in the close season. The IPL teams, however, do not control all their players all the time.

The franchises know they have work to do. Kolkata has already shown what can be achieved. In the run-up to this year's league the Knight Riders started advertising on television a full three weeks before any other team. It helped hugely that Mr Khan, a brand in himself in India, knows a thing or two about marketing. For instance, as the face of Nokia in the country, he was able to bring in the Finnish mobile-phone company as a shirt sponsor.

"Lots is happening," says Mr Badale. Teams are exploring international matches, work with local communities is under way and interest on fan Facebook sites is "spiralling". "Several licensing deals will be in place shortly," he says. "It feels as busy as when the tournament was on."

If Mr Badale's team can find more fans like Huzaifa Fakhruddin, it should do all right. Mr Fakhruddin's family originates from Rajasthan, but has lived in Dubai since his grandfather settled there 40 years ago. He was in Mumbai on the day of the final and went to buy six Royals shirts for himself and his relatives. In the store, he says, he met none other than Sohail Tanvir, who offered him a ticket to the match. Mr Fakhruddin could not go because he had to attend a family function, so he missed Mr Tanvir's decisive shot, just on midnight. Maybe he'll be back next year.

Chunnis on the tree

Jul 31st 2008
From The Economist print edition

Sport and sponsorship are not always about fame and fortune


Another goal in Aligaon

LOOK both ways and listen before you cross the railway. Go down the slope and past the mosque. Give the buffalo a wide berth. There, on the patch of grass in front of you, are the goalposts. This is where the young women of Aligaon, on the outskirts of Delhi, play netball.

The players are mainly from conservative Muslim families. Most had only a year or two's schooling. Sport would not normally be part of their lives; the Indian Premier League could be on another planet. But these girls, aged 12 to 18 (with others from Govindpuri and Sanjay Camp, also in Delhi), are taking part in a project called Goal, which has been set up by Standard Chartered, an international bank. The bank's partners are Naz India, an NGO dedicated to preventing the spread of HIV/AIDS, and the International Federation of Netball Associations.

The girls do not only play netball; Goal has 11 "modules" covering topics from health and hygiene to peer pressure, sexuality and finance. It is all aimed at building their self-confidence and making leaders of them. But sport is at its heart.

Netball players, from goalkeeper to shooter, have specific duties. They must also work together: because only two players may score, and dribbling and carrying the ball are forbidden, passing is essential. Other good things about netball are that it is a non-contact sport, and it is cheap, requiring only goals and a ball. The girls at Aligaon used to play in slippers or bare feet. Then Peter Sands, the bank's chief executive, came to watch them, and now the bank pays for sports shoes.

Do the girls like netball? "Yes!" they shout. They are pretty good, too. Neha, from Govindpuri, played for Delhi's under-19 team in the Indian interstate championships this year; they came second. Two others played in the under-16 competition. In a game against a team from the bank, admits Sharon Sethi, who manages a Standard Chartered branch in Delhi, the girls from the project won easily.

The players from Govindpuri are in an NGO-run school, and Neha now plans to study for a degree in physical education, perhaps with an interest-free microfinance loan, and return as a coach. She is already helping to train the younger girls. In the other modules too, "Goal champions" are learning how to lead sessions.

"What I have learnt from here is confidence and how to speak," says one. "We've got a direction," says another. At first, recalls Mrs Sethi, the girls would not take off their *chunnis* (loose scarves worn over their *salwar kameez*, or tunic and trousers, to hide the line of the body) when they played. Now they hang their *chunnis* on a tree by their makeshift court before they start their game.

Standard Chartered plans to take Goal to Chennai and Mumbai. "Empowering a young woman allows her to protect herself," says Anjali Gopalan, Naz India's executive director. "When this thing came up for looking at leadership through sport, I was quite sceptical about it. A year down the road, I'm completely converted. Every young woman should be given a chance like this."

For the joy of it

Jul 31st 2008
From The Economist print edition

Despite drug scandals and other problems, sport remains wildly popular

HE POINTED to the sky. Even before he crossed the line, the victor looked across at the vanquished. And on the television screen was that astonishing time. Twenty years on, no one who watched Ben Johnson win the Olympic 100-metre final in Seoul will have forgotten what they saw. The Canadian won in 9.79 seconds, faster than anyone had run the distance before—and faster than anyone else would run it for almost 11 years afterwards.

Nor will anyone have forgotten that three days later Mr Johnson was disqualified after his urine was found to contain stanozolol, a steroid. Since then the list of shamed sprinters has lengthened considerably. It includes Justin Gatlin, Olympic champion in Athens, Tim Montgomerie, another 100-metre record holder, Marion Jones, winner of several Olympic medals, and Dwain Chambers, a European champion in 2002. All these had been supplied by the Bay Area Laboratory Co-operative (BALCO), a Californian company. Ms Jones was jailed for lying under oath about her drugtaking. In July Mr Chambers lost a legal battle against a lifetime Olympic ban.

All of this has given sprinting a bad name. When Usain Bolt, a Jamaican athlete, broke the 100-metre world record in June, clocking 9.72 seconds, his feat was greeted with only muted celebrations. Mr Bolt has never failed a drugs test, and there is every reason to believe that he is squeaky clean. But people have become cynical about the sport. For that, Mr Bolt can blame Mr Johnson and others.

Nor is it just sprinting that has become tainted. Road cycling has been associated with drugs for years, dragging down the reputation of its most famous race, the Tour de France. Last year the race leader and several others were pulled out under suspicion; the winner in 2006, Floyd Landis, was stripped of his title for failing a drug test. This year, too, riders have been caught out.

Leading baseball players have admitted "juicing" with steroids and human growth hormone. One, Jose Canseco, has written a couple of books lifting the lid. Several were named by George Mitchell, a former senator, in a report last December. Barry Bonds, who has hit more home runs than anyone else, has also been linked to BALCO. He is due to be tried for lying to a federal grand jury in 2003, when he denied using steroids. Mr Bonds says he is not guilty.

Getty Images



The rare delight of victory

This special report has argued that the old marriage between sport and the media is crucial to the success of the business. Millions of eyeballs translate into fat fees from both television companies and sponsors. On the face of it, scandals about drugs could put that marriage at risk. Tainted contests are a

turn-off, and corporate sponsors do not want to see their names dragged into the mire.

Yet so far scandals have done surprisingly little financial damage. Disgraced athletes, of course, stand to lose a lot more than their medals: corporate backers drop them instantly. And some sponsors have walked away from teams too: for example, T-Mobile, the mobile-phone division of Deutsche Telekom, ended its sponsorship of a cycling team last November. But by and large the sports business has weathered drug scandals pretty well.

Fans probably believe that most sport is clean, and they may well be right. It helps that the authorities are seen to be coming down hard. Athletes in many sports now have to make themselves available for an hour every day for a possible “out of competition” check. According to Russell Langley of UK Sport, Britain’s anti-doping organisation, after a prominent athlete was banned for missing three tests, the number of missed tests dropped almost instantly by 50%. The gathering of intelligence about drug use is also improving, thanks in part to the BALCO case. The Tour de France’s organisers this year banned one leading team with a poor drug record and did not relent even when its best rider won the Giro d’Italia, another important race, in May. Even baseball now has a test-and-ban system, though the penalties are not severe enough for some critics.

To err is human

But the incentives to cheat are increasing all the time as sport becomes more and more commercialised. Greater rewards make for fiercer competition, and fiercer competition makes it harder to keep up and hence harder to resist reaching for the syringe. Sometimes the fans do not care. During baseball’s steroids era it became plain that plenty of players were using extra help. But the game was exciting and balls were being hit farther than ever, so people did not ask too many questions.

Sport has plenty of problems, of which drugs are just one. Some sports have incompetent administrators; some have corrupt ones. Worse, some have corrupt players. Nothing, perhaps not even drugs, taints a contest as much as the suspicion that it has been fixed with an envelope full of notes. Players sometimes act like spoilt children on the field. Some are drunks or criminals off it. And too often spectators are the worst of all. Sport has sparked riots, knifings, murders and even a war (in 1969, between El Salvador and Honduras).

Sport, in other words, involves just as much nastiness, cheating and corruption as life in general. But sports enthusiasts may prefer not to look, at least for a few hours. They are not in the factory or the office but in another world. Even the clocks are different. There are ten minutes remaining, plus injury time. It’s the bottom of the ninth. This is the last over, the last lap, the 18th hole.

Out there—on the field, on the television—are 11 (or nine, or 15) people playing for you, your town, your country. You can say that you saw Bradman or Ruth, Pelé or Montana, Federer or Navratilova, Nicklaus or Woods—or you may have the tingling feeling that you have seen the next of the greats. Music, theatre and film may provide much the same experience. But in sport there is no script.

That, in the end, is why people watch sport and will keep on doing so. They want escape, excitement and suspense. The French still turned out to cheer the *peloton* in July. America’s ballparks are full. And next week hundreds of millions will be watching the Olympics.

Sources and acknowledgments

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Business in Russia

Mechel bashing

Jul 31st 2008 | MOSCOW
From The Economist print edition

Vladimir Putin's attack on a mining company shows that nothing has changed

Illustration by Claudio Munoz



EVER since Dmitry Medvedev became Russia's president and Vladimir Putin assumed the role of prime minister, Russian businessmen and foreign investors have wondered who is really in charge and whether anything would change. Mr Putin visited factories and farms, chatted with workers and lambasted an odd minister, but he looked distinctly bored. Was he loosening his grip? In the past few days Mr Putin has delivered a thundering answer.

To assert his supremacy Mr Putin chose Mechel, a steel giant listed in New York, with a market value of $15.2 billion. On July 24th Mr Putin publicly accused Mechel and its main shareholder, Igor Zyuzin, of selling its coking coal abroad more cheaply than at home and dodging taxes. He was particularly irritated that Mr Zyuzin, who was summoned to a government meeting, was said to be ill. "Of course, illness is illness, but I think he should get well as soon as possible. Otherwise, we will have to send him a doctor and clean up all the problems," said Mr Putin. Perhaps the prosecution office and anti-monopoly service should investigate, he added.

Mr Putin's medical advice had an immediate effect: Mechel's share price plummeted, wiping some $5 billion off the firm's value and prompting a dramatic fall in Russia's stockmarket. The episode stirred memories of Yukos, once Russia's largest oil company, which was destroyed by crippling claims for back taxes. Mikhail Khodorkovsky, Yukos's former boss, is still in jail and his assets are now part of Rosneft, a state-controlled oil firm chaired by Igor Sechin, Mr Putin's trusted aide. The sense of déjà vu was enhanced by the fact that it was Mr Sechin who apparently briefed his boss about Mechel's behaviour.

Mr Putin's attack seemed to take Mr Medvedev and his circle by surprise. A senior adviser to Mr Medvedev tried to calm nerves, noting that Mechel was co-operating with the anti-monopoly investigation, which would strictly obey the rule of law. "We should be especially careful about our market, which is becoming important for ordinary people who invest their money in shares and bonds," he said.

But Mr Putin would have none of it. A few hours later he told his ministers, in front of television cameras, that Mechel fixed prices, evaded taxes and pushed up inflation, harming the Russian people. This stirred memories of Stalin's denunciations of "saboteurs" and knocked another third off the company's value. The next day an explosion in one of Mechel's mines injured 17 people, and the environmental agency launched an investigation.

Russian businessmen have been trying to work out what provoked Mr Putin. Unlike Mr Khodorkovsky, Mechel's owner, a former miner, steered clear of politics and shunned publicity. "It shows that the Yukos case was not unique and it could happen to anyone," says one observer.

The favourite theory so far is that the attack on Mechel was instigated by one of its customers or competitors, who complained to Mr Sechin that Mechel was abusing its monopoly position in coking coal. A second theory is that Mechel will be taken over by a state corporation run by one of Mr Putin's former secret-service colleagues. Igor Shuvalov, Mr Putin's deputy, has said that Mechel is unlikely to go down Yukos's path, but acknowledged that "in life, no possibility can be excluded".

Mechel's story offers several lessons so far. It shows that the legacy of Yukos is strong, institutions are weak and Mr Putin's whims take precedent over legal decisions. It demonstrates that Mr Putin feels invincible and nobody, including Russia's new president, has any power over him. And it shows that Mr Putin has little interest in nurturing a good investment climate.

This may also explain the rough treatment BP, a British oil giant, has received in Russia. On the day Mechel was being castigated, Robert Dudley, the embattled chief executive of TNK-BP, BP's joint venture in Russia, left the country citing "uncertainties surrounding the status of my work visa and the sustained harassment of the company and myself". His visa has expired and so, say Russian shareholders who want him out, has his contract.

The conflict at TNK-BP remains a dispute between private shareholders. The Kremlin has not interfered directly, but it has not prevented the use of official agencies in the fight, nor has it done anything to help BP protect its investment. "Tread with caution," was the advice of Tony Hayward, BP's chief executive, to companies thinking of investing in Russia.

Perhaps one reason why the Kremlin is so complacent about foreign investors is that it has never paid the price for destroying Yukos. Rising oil prices, strong global growth and booming capital inflows meant that investors soon forgot about the affair. BP itself happily took part in Rosneft's initial public offering, which legitimised its murky and controversial takeover of Yukos's assets.

Today the outlook is less radiant, argues Rory MacFarquhar, chief economist at Goldman Sachs in Russia. Economic growth is expected to slow, inflation is in double digits and oil production is falling. Last year imports grew almost four times as fast as exports in real terms. Russia still had a current-account surplus last year, but if oil prices continue their recent decline, the balance of payments will soon look less healthy and the need for foreign investment may become more urgent. It is not just foreigners who should be worried about Russia's investment climate—so should Russians themselves.

Trade unions in China

Membership required

Jul 31st 2008 | HONG KONG
From The Economist print edition

Global firms operating in China are being pressured to sign up with a government-affiliated union now, or pay more later

Reuters



Now welcoming union representatives, too

RATHER than deal with trade unions, Walmart, the world's biggest retailer, has reconfigured its operations around the world, even pulling out of some markets altogether. But, in a reflection of just how different operating conditions are in China, Walmart signed collective-bargaining agreements with workers in two provinces in July. Further agreements covering all 50,000 of its local employees in China are a foregone conclusion.

The financial terms of the contract are of only minor importance. Far more important are the other implications of Walmart's new ties to the All-China Federation of Trade Unions (ACFTU), a monopoly that claims 193m members and is deeply intertwined with China's government and Communist Party. Like it or not, Walmart now has a business partner, and if it wants to close stores, lay off employees, or change other aspects of its business such as operating hours and work quotas (what employees are expected to accomplish), that partner must be consulted.

The history of the ACFTU is, in many ways, the recent history of China. Founded in 1925, it was crushed by the nationalist government in 1927, rose with the Communist Party's ascension in 1949, and was crushed again in the Cultural Revolution before being revived in the general opening following Mao's death in 1976. Competing unions are not allowed and by discouraging any sign of dissent, including strikes, the ACFTU has often been accused of failing to act in its members' best interests. This point was made with particular vehemence in the 1980s and 1990s, as China emphasised growth and business investment at the expense of workers' rights.

With the change of political leadership in 2003 and many highly publicised reports about poor working conditions, there has been a shift in emphasis in China, and a corresponding shift in the union. Walmart, with its prominence, served as an early test case for the union's rise, with accreditation (but no contract) achieved in 2006. Two foreign fast-food chains, Yum! Brands and McDonald's, agreed to worker representation in 2007 after being slammed in the Chinese press for breaking the law in their payment of students (the charges turned out to be false). Agreements were also reached with other companies well known for resisting unions elsewhere, notably FedEx, a logistics firm. The process is now accelerating.

In January, China imposed one of the most far-reaching labour laws in the world. It included provisions requiring firms to consult employees on "material" work-related issues. Some companies responded by forming in-house workers' groups, but the ACFTU objected, claiming that this amounted to the creation of an alternative labour union, and was thus illegal. Instead, it has used the new law as the basis for a huge registration drive by the ACFTU that began in June and is intended to sign up 80% of the largest foreign companies by the end of September. And that, in turn, is a prelude to the stated goal of having trade unions in all of China's non-state-owned companies by 2010.

Unrelenting pressure is applied to convince companies to sign up. Many are visited every two weeks by union representatives. Firms that are willing to co-operate receive two critical benefits: the ability to influence who their union chairman will be, and some negotiating freedom around a 2% payroll "tax" to the national union, much of which is remitted back to the municipal and company branches and, in the best circumstances, may then be used to pay for social functions, medical benefits and bereavement leave.

These two benefits are far more important than they sound. The union chairman is typically tied to the government and the Communist Party, must be consulted on critical issues and, in effect, cannot be fired. The union chairman is therefore critical to a firm's management. And the ability to negotiate on the payroll levy can mean, for example, that expatriate salaries are excluded from the payroll figure, or that a smaller figure from a previous year is used as the basis of the calculation.

By contrast, companies that resist, according to a senior union official quoted in the *China Daily*, a government newspaper, will be blacklisted. They will not face pickets and strikes, as they might in the West. Instead they will be subject to endless audits, tax examinations and, as in the cases of McDonald's and Yum!, accusations of employment-law violations. It is also possible, given the wording of the new labour law, that resisting unionisation is illegal. So it is difficult to imagine that any company will choose to resist.

With a over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Even so, the impact of higher labour costs and more cumbersome work rules should not be underestimated. For companies aspiring to sell in China, the intervention of what is, essentially, the state into their management is probably unavoidable. For those using China as a production hub, there is yet another reason to search for an alternative.

British Airways and Iberia

Flying in formation

Jul 31st 2008
From The Economist print edition

British Airways and Iberia bow to economic and strategic necessity

THERE is nothing like high oil prices, it would seem, to free a European airline from protective national sentiment. Late last year British Airways (BA) backed away from a bid it had made with four private-equity firms for Iberia, Spain's flag carrier, after Caja Madrid, a Spanish bank with political connections, bought a large defensive stake. This week, with the price of oil up 25% and BA and Iberia shares down 25% and 37% respectively, the two firms said they were in talks about an all-share merger. Both companies' boards support the deal, as does Caja Madrid.

In July Martin Broughton, BA's chairman, said the firm faced "perhaps the biggest crisis the aviation industry has ever known". As well as soaring fuel costs, airlines are bracing themselves for weakening consumer demand. Cost savings and revenue gains from a merger will help BA and Iberia mitigate the pain.

From a strategic point of view, too, both BA and Iberia badly need more bulk. The smaller of the two, Iberia has lost market share in Spain and is struggling to compete with low-cost carriers. Europe's two biggest airlines, Air France-KLM and Lufthansa, both completed cross-border mergers in recent years, relegating BA from first to third place in Europe, and making it look increasingly left out as the industry consolidated. Had Iberia fallen to one of BA's European rivals, its position would have been badly weakened. And BA needs a new avenue for growth now that a third runway at Heathrow looks unlikely. Iberia will bring it extra capacity at Madrid Barajas airport, which has four runways, and fast-growing long-haul routes between Spain and Latin America.

As is customary in cross-border airline mergers, BA and Iberia will merge financially, but not operationally—at least in the short term. "They've put rings on each others' fingers, but we may have to wait for several years for the consummation," says Rigas Doganis, an aviation-industry commentator. A holding company will own the two airlines, but their brands will survive, and day-to-day operations will be managed separately.

Savings will come from combining back-office activities and from joint purchasing of aircraft, fuel and ground services. Joint purchasing of aircraft, potentially the biggest source of savings, may take some time, however, says Robert Cullemore of Aviation Economics, a consultancy. Air France and KLM, he points out, still announce their orders for new planes separately, four years after merging. On the revenue side, the merger will reduce competition on routes where BA and Iberia both operate, letting them raise prices.

Similar "half merger" strategies produced better results than expected for Air France-KLM and Lufthansa, which took over Swiss International Airlines in 2005. But industry observers question whether BA and Iberia will reap similar benefits. The two airlines already operate an alliance on the London-Madrid route and divide the profits, notes Geoff van Klaveren, an aviation analyst at Exane BNP Paribas, so there are few further synergies to be had there. And they have fewer long-haul flights in common than Air France and KLM did when they merged, so there is less scope for combining flights.

Now that Spain has allowed economic reality to prevail over politics, another struggling airline stands out all the more starkly: Italy's flag-carrier, Alitalia, which is losing over €1m ($1.6m) a day. Air France-KLM offered to buy it but Silvio Berlusconi, who was elected prime minister soon afterwards, blocked the deal. Oil prices have fallen from their recent peaks, but perhaps they are still high enough to change minds in Rome, just as they did in Madrid.

Alcatel-Lucent

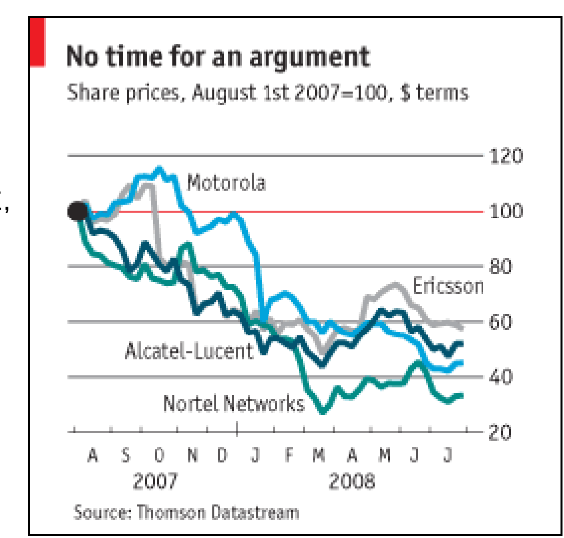
Goodbye and adieu

Jul 31st 2008
From The Economist print edition

The architects of a big telecoms-equipment merger decide to hang up

WHEN Alcatel, a French maker of telecoms equipment, announced its plan in 2006 to merge with Lucent, an American rival, reactions were mixed. There was general agreement that bigger was better and that the combined firm would benefit from greater geographical reach. But there was also scepticism that its French and American managers would be able to get along. With good reason, it seems: on July 29th Alcatel-Lucent announced its sixth consecutive quarterly loss and the resignations of Serge Tchuruk, its French chairman, and Patricia Russo, its American chief executive. Their firm's troubles stem in large part from its internal clash of cultures.

This clash was an unhelpful distraction, given that the entire telecoms-equipment industry is suffering. The bonanza of 2000-05, when European operators upgraded their mobile-phone networks to new "third-generation" (3G) technology, is winding down. Sales growth is slowing, and even Ericsson, the industry leader, has seen its share price fall by 50% in the past year. Margins have also been squeezed by the rise of Huawei and ZTE, two Chinese firms. Their prices are sometimes 40-50% lower than those of Western vendors.



The merger was supposed to make Alcatel-Lucent more competitive, but cost savings have been hard to realise, despite 16,500 job losses from a workforce of 88,000. The combined company was also weak in W-CDMA, the dominant 3G technology, and relied too much on CDMA, a rival standard that is less popular. This made Alcatel-Lucent unusually dependent on a few key customers, such as Sprint, an ailing American operator. Alcatel-Lucent should have focused its research spending in a handful of carefully chosen areas, says Sylvain Fabre of Gartner, a consultancy, instead of maintaining a sprawling product portfolio.

And then there were the cultural problems. Key positions were divided between French and American executives, as was the board. When deciding which factories to close and which projects to fund, national allegiances quickly came to the fore. Both Mr Tchuruk and Ms Russo alluded to this when announcing their resignations this week. "It is now time that the company acquires a personality of its own, independent from its two predecessors," said Mr Tchuruk. Ms Russo said the company would "benefit from new leadership aligned with a newly composed board." Alcatel-Lucent plans to reduce the number of seats on its board and appoint some new faces.

Things might run more smoothly with a few new directors who are neither American nor French. The same goes for the new chief executive. One name being touted is Ben Verwaayen, the former boss of BT. He is respected in the industry, used to work at Lucent—and is Dutch.

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Apple

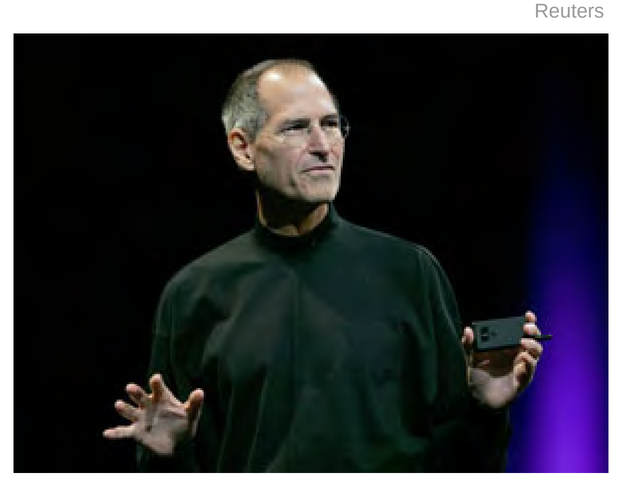
Jobs's job

Jul 31st 2008 | SAN FRANCISCO
From The Economist print edition

Who are the candidates to be the technology firm's next leader?

THE fuss began in June when Steve Jobs, the boss of Apple, came on stage in San Francisco to make one of the theatrical product announcements for which he is known. His trademark black mock-turtleneck was drooping from a fleshless frame, and his neck and cheeks were hollow. In hushed tones, the audience began wondering whether his pancreatic cancer—which he was treated for in 2004—had returned. The firm blamed a "common bug", but Apple's shares moved on various rumours. On July 21st its finance chief insisted that Mr Jobs's health was a "private matter", worrying investors. A few days later Mr Jobs called a reporter at the *New York Times* to explain that his condition was not life-threatening, but he did so "off the record", so no details are public even now.

Reuters



Focused on the next iPhone, not the next chief executive

Mr Jobs is arguably unique in the extent to which his identity and fate are intertwined with those of his company. Imagining Apple without Steve Jobs, or Mr Jobs without Apple, is difficult—as his exile from the company between 1985 and 1997 made plain. Only Warren Buffett, whose investment skill made Berkshire Hathaway what it is, has a comparable importance to his firm's shareholders. But Mr Buffett acknowledges as much. When he had some benign polyps removed from his colon, he volunteered the details in a press release. He also publicly clarified his succession plan. Mr Jobs has done neither.

So who might succeed him? Tim Bajarin, an analyst who has followed Apple for decades, thinks that Mr Jobs has bred such a strong culture within Apple that there is "nobody on the outside who could even come close" to taking the reins successfully. He also believes that Mr Jobs has recently groomed "the strongest team he's ever had", making it even more likely that the next boss will come from this group.

One possibility is Timothy Cook, who joined Apple from Compaq, another computer-maker, and is now chief operating officer. An Alabaman with a gentlemanly drawl, Mr Cook would be a very different manager from Mr Jobs. Mr Jobs is notorious for his temper tantrums and his ad hominem attacks on people who annoy him; Mr Cook prefers to dole out feedback discreetly. A cycling enthusiast, he is a picture of health. And he turned Apple from one of the least efficient manufacturers in the 1990s into one of the most efficient today.

Another choice would be Scott Forstall, a software wizard who has recently risen within Apple to take charge of the iPhone, the handset that is Apple's hottest product and perhaps its future. Mr Forstall came with Mr Jobs from NeXT, the computer company that Mr Jobs started during his exile from Apple and which made the operating system on which all of Apple's computers and handsets are now based.

Less likely, despite his important role within Apple, is Jonathan Ive, a soft-spoken British designer who is Apple's deputy guru (second to Mr Jobs himself) in matters of beauty, elegance and style. Apple is at heart a design company. The most stinging accusation Mr Jobs has hurled at Microsoft, his arch rival, is that "they have no taste." Mr Ive is the only person whose taste he seems to trust. But Mr Ive is a creative type, shy and self-effacing, and uncomfortable with managerial power.

There are other options. Bertrand Serlet is a humorous genius with a thick French accent who is in charge of Apple's operating system, but he might seem to have too much of the mad scientist about him. Phil Schiller is the marketing boss and a familiar face because he usually assists the boss on stage in product demonstrations. But he occasionally looks like Mr Jobs's court jester in this role, and the mere fact that Mr Jobs grants him such exposure may indicate that he is not the chosen one.

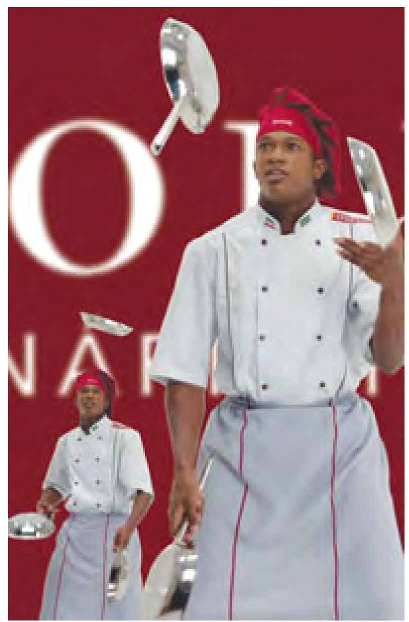
Entrepreneurship

Spreading the gospel

Jul 31st 2008 | MEXICO CITY AND NEW YORK
From The Economist print edition

An effort to promote entrepreneurship in the developing world is bearing fruit

www.endeavor.org



Spoleto juggles with its strategy

EARLIER this year Mario Chady faced a crucial decision. Having built up Spoleto, his chain of casual Italian restaurants, to 150 outlets in Brazil, and opened in Mexico and Spain, the time had come for Mr Chady, based in Rio de Janeiro, to choose between expanding into America or putting the idea on hold for at least 18 months. To help make up his mind, he asked for help from an organisation called Endeavor, which had chosen him as a potential "high-impact entrepreneur" in 2003.

Endeavor is a non-profit group based in New York dedicated to promoting entrepreneurship in emerging economies. It had already supplied three teams of students from the Massachusetts Institute of Technology to help Mr Chady craft a strategy for America. But as he spoke to members of the Endeavor network, ranging from leading Brazilian business tycoons to fellow up-and-coming entrepreneurs, he became convinced that it was the right strategy but the wrong time. Mr Chady decided to concentrate on expanding even faster in Brazil, and leave America for later. "The US economy is not at a very good stage, whereas Brazil is very hot now. Endeavor helped me see this," he says.

It is routine for entrepreneurs to consult their networks of mentors in Silicon Valley. But in much of the world, such networks are notable by their absence—and so, too, are examples of Silicon Valley-style successful entrepreneurship. Changing this was why Endeavor was created in 1997.

"Why can't the next Silicon Valley pop up in Cairo or São Paulo or Johannesburg?" asks Linda Rottenberg, who co-founded Endeavor with Peter Kellner, a venture capitalist. Fresh from Yale, she was working in Buenos Aires for Ashoka, an organisation that supports social entrepreneurs—people with innovative, usually non-profit ideas for solving social problems—and concluded that ordinary entrepreneurs needed a similar support system. Much of the difference between countries such as America, where entrepreneurship thrives, and those where it does not is cultural rather than regulatory, she believes. In many emerging economies, business tends to be dominated by a closed elite hostile to new entrepreneurs—and failure is stigmatised, rather than being a badge of honour, as it is in Silicon Valley.

The making of a start-up

Getting Endeavor started required some classic start-up doggedness of its own. At first, the philanthropic foundations Ms Rottenberg courted regarded the project as too elitist. "They complained that we were only trying to build a middle class, not to help the poor, despite all the academic evidence that a strong middle class is essential to prosperity," she recalls. Eventually Stephan Schmidheiny, a Swiss industrialist who has given away a large chunk of his fortune in Latin America, was persuaded to provide some seed capital, and Endeavor was up and running, initially in Argentina and Chile. Today it operates in 11 countries, including South Africa, Turkey and, most recently, Jordan.

Endeavor's magic works most powerfully in its selection process. Entrepreneurs are screened first by a national panel of successful businessmen, and then, if they are short-listed, by an international panel. So far over 18,000 entrepreneurs have been screened but fewer than 400 have been chosen. The aim is to identify those who can succeed on a scale that will make them into national role models, and then provide them with every possible support. But the process is designed to benefit all entrants, by helping them define their visions more clearly.

Endeavor's national boards are rosters of leading tycoons—the founders of InBev in Brazil, Jennifer Oppenheimer in South Africa and Lorenzo Zambrano, boss of Cemex, in Mexico, for example. The international board, chaired by Edgar Bronfman Jr, boss of Warner Music, is even more august. At a selection meeting in Turkey in June, the panel included Daniel Och, a hedge-fund boss, Naguib Sawiris of Egypt's Orascom Telecom, Brian Swette, the chairman of Burger King, and Ali Koç of Koç Holdings. "It is a lot of fun. You go to all these nice places in the world, find all these young enthusiastic people, who you get to help. Sometimes you invest, maybe make some money," says Ali Mehmet Babaoglu, a Turkish textile tycoon.

Once the selection process is over, these business figures then become mentors to the entrepreneurs. "Endeavor's genius has been to get the establishment in these countries together, not to kill these entrepreneurial companies but to support them," says Bill Sahlman, a professor at Harvard Business School who was recruited as an adviser early on.

Endeavor's entrepreneurs—who collectively now control companies with combined revenues of $2.4 billion and 91,000 employees, earning on average ten times the minimum wage in their country—rarely say they would not have succeeded without Endeavor. But they all believe they got bigger much sooner thanks to its endorsement and support. Leonardo Shapiro of VeriFone, a maker of online credit-card payment systems, describes as "priceless" the advice he got from Pedro Aspe, a former finance minister of Mexico, before he flew to meet a potential American buyer of his firm, and the legal help Endeavor arranged from White & Case, which although not *pro bono* "was at a very interesting discount, and pay it when you can."

One of Endeavor's earliest successes was Wenceslao Casares, who sold Patagon, his Argentine internet brokerage, to Banco Santander for $705m at the peak of the dotcom bubble. He believes Endeavor has started to change cultural attitudes in the countries where it has been active for a while, mostly in Latin America. "When I said I was going to start a business, it was against everyone's advice, from my family to my university," he says. "Now, go to the same university and the same professors will tell you that one of their goals is to produce good entrepreneurs."

Brazil is perhaps most vibrant of all. Endeavor's successes include Leila Velez, who grew up in a *favela* and whose beauty salon firm, Beleza Natural, now has revenues of $30m, and Bento Koike, whose wind-turbine-blade manufacturing firm, Tecsis, recently struck a $1 billion deal to supply mighty General Electric.

Going global

Endeavor has "created islands of hope," says Mr Casares. Now it must find ways to "change continents, not just little islands." This has been recognised by Endeavor's global board, which recently adopted an ambitious plan to expand to 25 countries by 2015. Endeavor is confident that it now knows how to adapt its model to new countries, having learnt from early stumbles in Chile, South Africa and Turkey. Fadi Ghandour, the Jordanian boss of Aramex, a logistics firm, believes there is much potential in the Arab world, which is full of young would-be entrepreneurs who have "discovered the new thing, that it pays to have an idea, not rely on land or investing."

Funding has long been a problem for Endeavor. As a non-profit, it has to rely on donors—many recruited through a glitzy annual gala in New York—which has been tough at times, as in the months after the terrorist attacks of September 11th 2001. Would it make more sense to be a for-profit operation? Endeavor has struggled constantly with whether to pursue profits, but each time has concluded no, says Ms Rottenberg, who also says she declined the chance to set up a $100m fund focused on emerging-market entrepreneurs. "If Endeavor had been an investor, rather than an independent, objective, non-profit enabler, it would not have been trusted by the business elite, or the entrepreneurs," she insists. "Trust is everything."

Happily, Endeavor has high hopes of moving onto a stronger financial footing. In some countries where it operates, starting with Brazil, successful entrepreneurs are signing up to a "give back" programme, donating 2% of their equity to Endeavor. With luck this could soon make the national operations self-sustaining. Moreover, on July 31st Omidyar Network, the philanthropic organisation set up by Pierre Omidyar, who made his money in Silicon Valley by founding eBay, announced a $10m investment to build up the capacity of Endeavor's global operations. "Endeavor is already having a significant impact," says Matt Bannick, managing partner at Omidyar Network. "Given capital, it could grow rapidly." Watch this space.

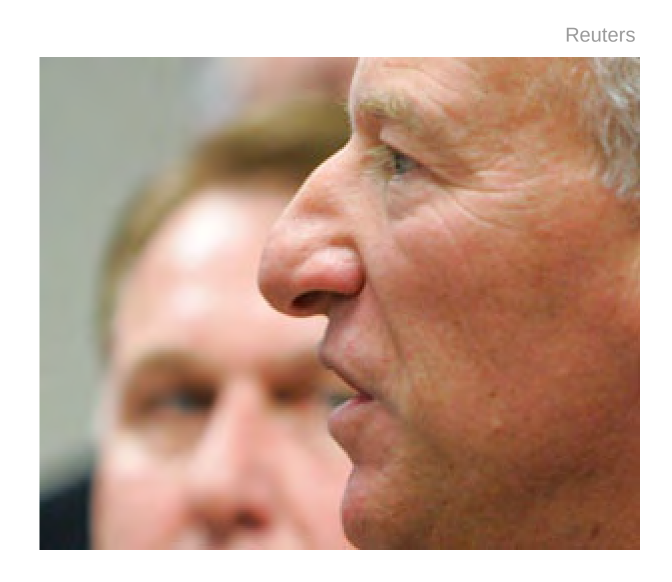
Face value

Bashing the Barbarians

Jul 31st 2008
From The Economist print edition

Will attacking private equity really help Andy Stern revive trade unionism?

Reuters



“WHAT kind of world have we got where Henry Kravis, with his seven houses, lectures us on morality?” asks Andy Stern. Dressed dotcom-style, in pinkish shirt and chinos, Mr Stern is known as the modernising face of America’s unions. Yet as he discusses the billionaire co-founder of Kohlberg Kravis Roberts (KKR), a private-equity giant preparing for a stockmarket listing (see article), Mr Stern delivers plenty of what sounds like old-fashioned class-war rhetoric. Mr Kravis, he notes, even spends millions “smoothing hills for his polo ponies”.

For the past 18 months the Service Employees International Union (SEIU), which Mr Stern has led since 1996, has been campaigning loudly against private equity (and, lately, against foreign sovereign-wealth funds, too). On July 17th it led a global day of action that targeted KKR-owned sites in 25 countries, calling for an end to favourable tax treatment of private equity. This high-profile campaign—prompting the *Wall Street Journal* to dismiss Mr Stern as a “drama king”—is typical of his approach, which has turned the SEIU into America’s fastest-growing union, even as overall union membership has continued to slump.

Critics abound, not least within the union movement. Mr Stern split in 2005 from America’s union umbrella organisation, the AFL-CIO, headed by his former mentor and predecessor at the SEIU, John Sweeney. Yet even his foes agree that the former social worker and 1960s student activist is impressively smooth and politically gifted. He likes to rub shoulders with movers and shakers at, say, the World Economic Forum or Aspen Ideas Festival. He blogs for the *Huffington Post*. In 2006 he published a book, “A Country That Works: Getting America Back on Track”, an optimistic manifesto that included plans for reviving unionism.

He is especially adept in using the language of the market. “This country, our world, is going through the most profound transformative economic revolution in history. This is not our fathers’ or even our great-grandfathers’ capitalism,” he says. The trade-union movement lost its way because it “did not accept that the world changed”. He wants to “take wages out of competition” by having “national relationships with national firms and global relationships with global firms”. The SEIU has led a global campaign against Group 4 Securicor, for example, helping to fund protests against the company by workers in South Africa. The union, in Mr Stern’s words, is “exporting our capital to Africa”.

The flipside of this is that Mr Stern shuns the traditional approach of doing local deals, as big employers nowadays tend to operate on at least a national scale. This has infuriated some regional leaders of the

SEIU, notably Sal Rosselli of the California branch. Mr Rosselli, whose attempted revolt at the union's annual meeting in June generated lots of positive press before being crushed, accused Mr Stern of wanting to dispense with internal democracy. Mr Stern counters that workers typically get paid more in California (and New York) than in the rest of America, "so it is easy for the local union leaders there to say, 'Why do I want to do things nationally or globally, as I won't get as much?'"

Seeing how the market has changed has also driven Mr Stern's new-found enthusiasm for bashing private equity: "As GM, Ford and US Steel were, so are KKR, Carlyle and Blackstone today." When the SEIU added up the number of workers at the companies in buy-out firms' portfolios, it found that five of the ten biggest American employers were private-equity firms. KKR, with 826,710 workers in its domain (from HCA, a health-care giant, to Toys "R" Us, a retailer) is second only to Walmart, the world's biggest retailer, which has 1.9m employees worldwide.

Mr Stern claims that many of these employees do poorly on wages, health care, pensions and so on (charges emphatically denied by private-equity firms, which loathe him). He says he discovered this only when private equity started to buy health-care firms with workers in the SEIU. "They found us. We didn't find them. They bought all our largest employers," he says. He believes the political tide is now strongly against private equity, which is already at its most unpopular since the late 1980s, when KKR's hostile takeover of RJR Nabisco was the subject of a bestselling book, "Barbarians at the Gate". Tougher tax treatment of private equity is but "one president away", he says. (Private-equity lobbyists privately agree.) Private-equity firms' willingness to accept money from the sovereign-wealth funds of countries with poor records on human rights is a "moral issue", he insists.

A kick to the privates

Some critics think Mr Stern's attack on private equity owes more to his political ambition than his members' interests, as he cosies up to Barack Obama (his future boss, perhaps?). They say the same of the tens of millions of dollars of union money he has spent campaigning for health-care reform. Yet such is the importance of health-care reform to his members, says Mr Stern, that despite inevitable sniping, he has campaigned for it in partnership with Walmart, the union movement's greatest bogeyman.

Yet on private equity, Mr Stern seems confused about whether he is a pragmatist or a class warrior. He does not attack Blackstone, because it cut a deal with the SEIU, though it does everything for which he criticises KKR. And by demonising private equity, he risks damaging the prospects of ordinary workers, including union members. The SEIU backed a recent bill to stop California's giant public pension funds investing in private-equity firms with links to sovereign-wealth funds. The bill faltered after the pension funds pointed out it would reduce their returns by billions of dollars. Private equity is not perfect, and is going through a tough time due to the credit crunch and economic slowdown. But by calling private equity "exploitative", denouncing its bosses and predicting that it will be a worse investment than assets it has previously outperformed, Mr Stern is resorting to name-calling, which is no basis for modernising anything.

Physics

Known and unknown unknowns

Jul 31st 2008
From The Economist print edition

Illustration by Belle Mellor



The world's largest machine is about to open for business. It will, however, only scratch the surface of the universe

WELL, it is about to happen. After more than a decade, SFr10 billion ($10 billion) and a lot of nail-biting, the first protons should spin their way into the Large Hadron Collider on August 8th. These protons will only be tests. But in a couple of months' time, when the tests are complete, the particle-smashing will begin in earnest. At that moment the LHC, as the giant machine near Geneva is known to its friends, will take the first big step into the unknown reaches of particle physics for a quarter of a century. For, although physicists have been trying to keep themselves busy on marginal projects during this period, the truth is that the last truly fundamental subatomic particles, the W and Z bosons, were found in 1983.

The next one, unless everyone's theories are wrong, will be the Higgs boson, a theoretical construct required to give mass to the other particles of which matter is composed. That should come quite quickly. Only if it does not will people start scratching their heads.

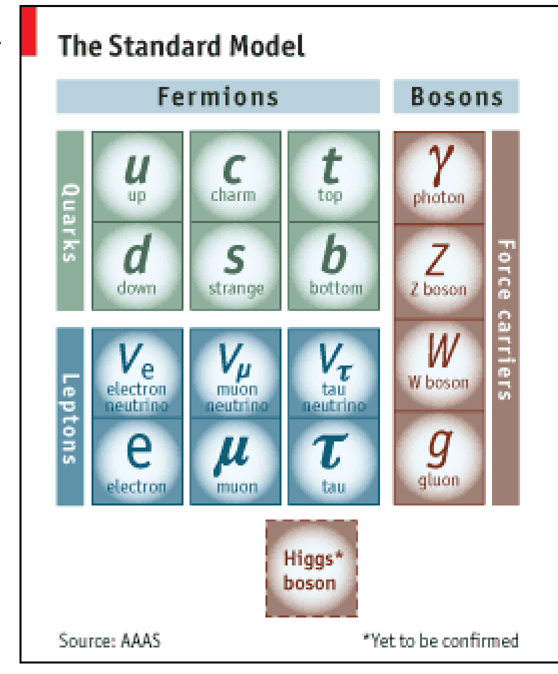
But even physicists do not spend SFr10 billion in the search for a single particle. What they are hoping is that the LHC will take them way beyond the universe described by the equations which predicted the W and Z bosons and predict the Higgs, and into *terra* that is truly *incognita*. Like the creatures drawn on the edge of a medieval map, the shapes of the denizens of this land are a mixture of observation and guesswork. The existence of some is confidently predicted, and their portraits will probably prove quite accurate. Others, though, are little more than names attached to things that can, at the moment, barely be perceived.

Double or quits

The physics of the small requires big machines: the LHC is a ring with a circumference of 27km (17 miles). The machine itself cost SFr5 billion—and that did not include the cost of the tunnel housing it, since that had been built for an earlier device that smashed electrons (and their antimatter equivalents), rather than protons. The four particle-detection experiments, lodged in caverns spaced around the ring, accounted for the other SFr5 billion. But what is being looked at is, in a sense, not small at all. It is actually the entire universe—or, rather, its fundamental constituents.

At the moment, there are 17 constituents on the list: 16 are known and one, the Higgs, is predicted. These particles, along

with the theory that links them, are called the Standard Model (see chart). Some parts of the model are familiar. Electrons, for example, are in it, as are photons, the particles of light. Quarks are the constituents of protons and neutrons, as well as more exotic things. Then there are neutrinos, W and Z bosons, the electron-like muon and tau particles, and gluons—which hold quarks together in groups. Gluons thus provide what is known as the strong nuclear force, while W and Z bosons provide the weak nuclear force that regulates some forms of radioactivity. Photons provide the electromagnetic force that does everything from pointing compasses north to stopping solid objects collapsing in on themselves.



Unfortunately, there is no place, yet, for the fourth universal force, gravity. But there might be. For one of the things the LHC will be looking for after the Higgs has been found will be the long-elusive graviton that must, unless physicists are completely wrong, carry the force of gravity in the way that gluons, W and Z bosons, and photons carry their own respective forces.

Finding gravitons would be a real advance. It would help to heal the breach between the two great theories of physics—quantum mechanics and general relativity. The former describes the world of electrons, quarks and so on, and led to the Standard Model. The latter is a theory of gravity that ascribes that force's effects to the warping of space itself.

Another advance into the unknown would be finding particles called neutralinos. These would be evidence for an as yet hypothetical view of the world called supersymmetry. Models based on supersymmetry seek to simplify things by making them more complicated. They require each of the particles in the Standard Model to have a so far undetected partner that serves to balance its properties in a mathematically pleasing way. Physicists are fond of supersymmetry because, even though it doubles the number of particles, the new mathematical symmetries it introduces eliminate the need for certain fudges in the existing scheme of things. One is the arbitrary, bolt-on nature of the Higgs boson. In the maths of supersymmetry, the Higgs emerges quite naturally.

Most of the proposed supersymmetric partners will be heavy, short-lived beasts. But some neutralinos could hang around indefinitely. Confusingly, a neutralino is not actually the partner of a particular Standard Model particle but is, rather, a mixture of the partners of several of them. What is particularly interesting about it is that it does not notice electromagnetism. In other words, it is dark.

That is important because, when the universe is viewed through a telescope, most of it seems to be missing. Visible matter makes up a mere 4% of it. Another 22% is referred to as dark matter. This can be detected from its gravitational effects, but is otherwise invisible. The remaining 74% of the universe is known as dark energy. Its existence is inferred from an effect that looks like the opposite of gravity: it is pushing the universe apart.

Knitting the fabric of reality

Many physicists suspect that much—and possibly all—of the dark matter is made of neutralinos. That would be easier to test if, first, they were sure that supersymmetric particles really do exist and, second, they knew something about their actual properties rather than having to make educated mathematical guesses.

Illustration by Belle Mellor

At the moment, the main reason for believing dark matter exists is that spinning galaxies would fly apart without it. The galaxy that is perceived through a telescope—the visible stars and gas—is actually just the centre of a larger structure. It is surrounded by an extended halo of dark matter. In fact, dark matter seems to act as a scaffold on which visible matter is arranged. When the universe was half the age it is today, dark matter formed loose networks of filaments stretching through space and time, like wisps of cotton wool. Since then, it has formed lumps under the influence of its own

gravity. Visible matter has accumulated in areas rich in dark matter. The result is a universe that now looks like a sponge.



Occasionally, this pattern is disrupted. If two galaxies collide, theory suggests that their dark- and visible-matter components may part company—and observations of the distorting gravitational effects of large amounts of matter on the images of objects behind these collisions suggest that this does, in practice, actually happen. Gravitational lenses, as these distorting masses are known, occur in places where no visible matter exists.

These observations, along with the likely existence of neutralinos, mean that dark matter looks like a known unknown. There is a plausible theory of what it might be, and a reasonable chance of testing that theory to see if it is right. Dark energy, however, is an unknown unknown.

The reason for believing in dark energy is that measurements comparing the expected luminosity of ancient supernovas with what is actually seen suggest something is pushing things apart faster than just the well-known expansion of everything that is the aftermath of the Big Bang. That something must be a form of energy, and the amount needed to have the observed effect can be calculated. It is this calculation that suggests it forms 74% of the universe. What dark energy is, though, is a mystery. It is possible, just, that the properties of the Higgs boson will cast a little light on that mystery. But it is much more likely that they will not.

There are other mysteries that the LHC will struggle to solve. One is the true nature of the "theory of everything" that physicists hope one day to develop. Until recently, it was generally agreed that this would turn out to be a form of string theory. String theory argues that the universe is actually played out in 11 dimensions, rather than the more familiar four of length, breadth, height and time. The other seven are tiny (an analogy might be a sheet of paper, which is two-dimensional for practical purposes, even though it does have a finite thickness). In string theory, particles are vibrating, multidimensional "strings". The mode of vibration determines the nature of the particle.

Recently, though, string theory has acquired a rival, known as loop quantum gravity. This argues that particles are not separate from space and time. Rather, space and time are made of looped ribbons that, when entangled in certain ways, give rise to irregularities that are perceived as particles. Here be dragons indeed—and ones way beyond the ken of the LHC.

The LHC should, though, if all goes according to plan, show up one very well known unknown by creating tiny black holes. These will not, as some have suggested, consume the Earth. They will not last long enough to do that. In fact, they will evaporate in a puff of hitherto hypothetical energy called the Hawking radiation, after the world's most famous living physicist, Stephen Hawking.

One prediction that can be made with a high level of confidence is that if the Hawking radiation is discovered in the LHC, the man who conceived it will win that year's Nobel prize for physics. Such prizes are not given for untested theories alone. Theory must be demonstrated by practice. But if it is, the committee is unlikely to make Dr Hawking wait for what would be a richly deserved accolade. If anything in physics is known for sure, it is that.

 FINANCE & ECONOMICS

Trade talks

The Doha round...and round...and round

Jul 31st 2008
From The Economist print edition

After another failed summit, seven years of trade talks may become nine or ten

Getty Images



LIKE "watching paint that never dries" is how Sheila Page of the Overseas Development Institute, a London think-tank, describes the experience of following the Doha round of global trade negotiations. Launched in 2001 by the members of the World Trade Organisation (WTO), the talks seek to cut tariffs and farm subsidies, as well as liberalising trade in services. On July 25th, hopes of an unlikely deal, brokered by Pascal Lamy, the WTO's relentless director-general, at a summit in Geneva, briefly rose. But on July 29th, after nine days of negotiations, the mix turned gloopy once again.

From the start, the round's chief ambition was to straighten out some of the kinks in agricultural trade. This ancient activity, which accounts for only 8% of world merchandise trade, is the most heavily distorted by misbegotten policies. It is, therefore, in agriculture that an agreement could do the most good. But it was also in agriculture that the agreement came unstuck.

The failure of this round was rooted in the success of the last. The 1994 Uruguay round, named after its country of launch, required countries to convert their farm quotas and other barriers into straightforward tariffs. Nervous about unanticipated floods of imports, countries were allowed to impose "special safeguard" duties to protect themselves in the event of a surge.

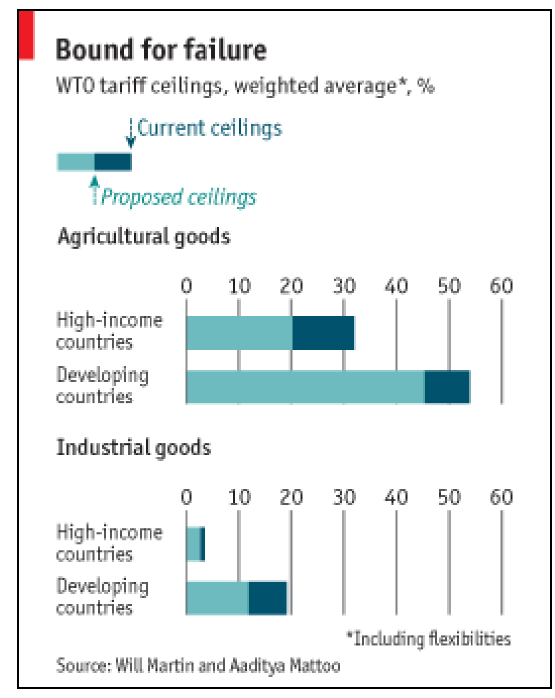
Intended as a temporary fix, these duties soon became a long-term crutch for politically touchy commodities, such as sugar. Hungary, for example, clung to them for almost five years. Rather than drop these safeguards altogether, the Doha negotiators agreed to reform them, but they could not agree on how to do so. India wanted the right to raise farm tariffs far above agreed ceilings in response to a modest increase in imports. China was equally adamant. It seems to have concluded that the best response to high food prices is to move closer to agricultural autarky than to free trade.

America insisted that its farmers be allowed to sell more produce in countries like China, which buys around 40% of its soyabeans. Otherwise it could not win support for tighter limits on its subsidies.

The shadow of the Uruguay round arguably extended beyond this nettlesome detail. Many developing countries believe that the earlier round was lopsided, doing little to constrain the farm policies of the rich

world even as it placed heavy obligations on the poor in areas such as intellectual property (IP). In the Doha round, they wanted to get their own back, by asking more of the rich world than they offered in return. As a result, this round was if anything too narrow, not too sprawling. Had IP rights still been on the table, for example, it is harder to imagine rich countries allowing talks to fail on behalf of their farmers.

And yet fail they did. The deal ministers left on the table was full of loopholes and loose ends. But two economists at the World Bank, Will Martin and Aaditya Mattoo, have tried to size up its rough dimensions (see chart). Their calculations help to quantify what might have been.



The chart shows the proposed cuts in the maximum tariffs countries are allowed to apply (averaged across products, and including various exemptions). In agriculture especially, the cuts seem impressive. But because these negotiated ceilings are so much higher than the tariffs countries actually impose, even quite big cuts can make only a modest difference to trade.

In rich countries, for example, the farm tariffs actually imposed would have fallen from 15% on average to 11%, according to the two economists. In India, on the other hand, the average (59%) would not have budged at all. Set against this are some less tangible but still worthwhile boons. By binding tariffs near to the prevailing rate, a Doha agreement would have stopped policies taking a dramatic turn for the worse. South Korea, for example, had farm tariffs averaging just 7% in the 1960s. Some have since reached triple digits.

What about subsidies? Before the breakdown, America had contemplated limiting its trade-distorting subsidies to $14.5 billion. That limit was far more than it actually spent last year, but less than it spent in four of the last seven years, when farm prices were lower. So according to Kimberly Elliott of the Centre for Global Development, a think-tank in Washington, DC, the developing countries had won a modest but not meaningless concession from the world's most powerful country. Some also believe America would have offered an ambitious cut in its cotton subsidies, which are of particular concern to West African exporters. Africa's spokesman in Geneva was as disappointed as anyone by the breakdown of the talks.

That disappointment might prove to be corrosive. In the wake of this failure, will the WTO remain useful enough to the big powers to retain their support and patronage? Will Mr Lamy himself stay beyond his four-year term, which ends in September 2009? Without his dogged persistence, the Geneva summit might never have taken place and would certainly have ended four days (and sleepless nights) earlier. Some exhausted negotiators might count that a jolly good thing. But according to Pascal's wager, a director-general who keeps faith in the round has little to lose. One without faith is sure to fail.

Buttonwood

Profits of doom

Jul 31st 2008
From The Economist print edition

The rise of the bearish analyst

Illustration by S. Kambayashi



TEN years ago it was easy to make your name as a securities analyst. Take a technology stock, think of a number, double it and then announce that as your price target. Time it right and your call would be a self-fulfilling prophecy, as investors worldwide would regard your views as a buy signal. Mary Meeker of Morgan Stanley and Henry Blodget of Merrill Lynch ruled the markets.

Nowadays you establish your reputation by being as gloomy as possible. Meredith Whitney, a banking analyst at Oppenheimer, scared the markets last year by sounding a warning about the financial health of Citigroup. Kathleen Shanley, an analyst at Gimme Credit, recently caused a brief flurry by opining that creditors were withdrawing funds from Washington Mutual (which the company quickly denied).

The same trend can be seen for those analysts who cover the overall markets and the economy. The cheerleader for the late 1990s boom was Abby Joseph Cohen, an upbeat strategist at Goldman Sachs. The current downturn has burnished the fame of David Rosenberg, a gloomy economist at Merrill Lynch, and Teun Draaisma, a Morgan Stanley strategist who has made a couple of successful bearish calls. Albert Edwards, a strategist at Société Générale who has been predicting stockmarket doom for a decade, is consistently placed at the top of European institutional-investor polls.

In part, this simply reflects the way the markets have moved over the past decade. Anyone who bought American stocks in 1998 will not have much to celebrate. Perma-bulls have steadily lost credibility. The same thing happened after the 1970s. By the end of that terrible decade for financial assets, the dominant strategist on Wall Street was Henry Kaufman of Salomon Brothers, who delighted in the moniker of “Doctor Doom”.

The rise of hedge funds has also played a big part. In the 1990s, few people were interested in stocks that were likely to underperform or fall. Analysts tailored their views to fit the market; there were nine buy recommendations for every sell.

But hedge funds need to have “shorts”, stocks that they believe will go down, as a basic part of their strategy. Finding shorts is a tricky business, and they are willing to pay fat brokerage commissions to analysts who can come up with the goods. And hedge funds are nowadays critical to a brokerage business. Last year, according to Greenwich Associates, they accounted for 30% of American equity-trading volume.

Another constraint on analysts in the 1990s was the need to keep corporate clients sweet. The big money was in advising companies on takeovers and share issues. Unless its analyst had a buy recommendation on the stock, an investment bank had little hope of persuading a company to award a mandate. In addition, companies would lean on analysts that were not “with the programme”. They could be cut off from the information needed to devise their forecasts.

The reforms introduced earlier this decade by Eliot Spitzer, then attorney-general of New York state, may have done something to make analysts more independent. They have helped create a market for independent research houses such as Gimme Credit. But it may also matter that there is less corporate-finance business around at the moment. The biggest area of business is bank capital-raising, and success there may be a mixed blessing, given recent underwriting losses.

Will the fame of the gloom-mongers be as fleeting as that of Ms Meeker and Mr Blodget? Making forecasts about the earnings potential of dotcom stocks was a real shot in the dark. Both the industry and the business models were new. That made it hard to challenge predictions. Although it was implausible to argue that internet companies in aggregate could do as well as forecast, it was possible that individual companies might live up to the hype.

Making bearish calls, in contrast, usually involves a lot of analysis of balance-sheets and cashflows, analysis that needs to be robust enough to stand up to the hostility of the companies concerned. If you get the facts wrong, you will be found out pretty quickly. Indeed, you can get the facts right and still be defeated, in the short term, by market euphoria.

Bearish analysts are not all heroes. Sometimes they merely shout “Fire!” in a crowded theatre and feel vindicated when panic ensues. But their prominence is a healthy long-term sign for the markets, which proved as gullible about the health of mortgage lenders in 2005 and 2006 as they were about dotcom stocks in 1999. The best will survive, especially if they have the flexibility to turn bullish when the fundamentals improve.

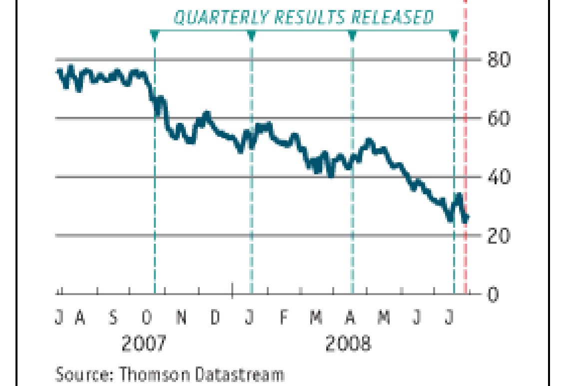
Merrill Lynch

Thain takes the pain

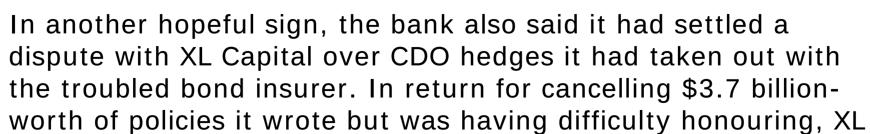
Jul 31st 2008 | NEW YORK
From The Economist print edition

An unexpected fire-sale could mark a turning-point

“I GREW up in a relatively small town in the Midwest, and I am a very straightforward kind of person,” John Thain told a group of Merrill Lynch bond traders last December, not long after taking over as chief executive. The struggling investment bank’s shareholders may beg to differ. On July 17th, after Merrill announced its fourth quarterly loss in a row and the sale of its cherished stake in Bloomberg, a financial-information firm, Mr Thain said he believed the bank was in a “very comfortable spot” in terms of capital. Eleven days later Merrill unveiled another whopping write-down of mortgage-linked assets and further steps to shore up its finances with an $8.5 billion share offering.



Merrill’s news doubtless helped confirm the Federal Reserve in its decision, announced on July 30th, to extend its emergency lending facility for Wall Street firms until January (it also lengthened loan periods for commercial banks). But amid the red ink and the flip-flopping, there is also a hint of hope. The write-down stems mainly from a deal to sell collateralised-debt obligations (CDOs) with a face value of $30.6 billion to Lone Star, a vulture investor with a track record of buying distressed financial assets (see article), for a mere 22 cents on the dollar. A market-clearing price may finally be being established for the most toxic assets on banks’ books, albeit at a very low level. And after several false dawns (see chart) Merrill may be able to start looking past its immediate woes.



In another hopeful sign, the bank also said it had settled a dispute with XL Capital over CDO hedges it had taken out with the troubled bond insurer. In return for cancelling $3.7 billion-worth of policies it wrote but was having difficulty honouring, XL will pay Merrill $500m. This could prove a template for other banks that have become entangled with “monoline” guarantors.

If the CDO sale is Merrill’s long-hoped-for “kitchen sink” moment, it comes at a cost. The bank was able to complete the sale only by agreeing to finance 75% of the purchase price. And by raising more capital—bringing the total since December to more than $30 billion—it triggered a “reset provision” that requires it to pay $2.5 billion to Temasek, a Singaporean fund that invested in an earlier offering at a higher price (and is ploughing $3.4 billion into this one). That bodes ill for others, such as Washington Mutual, that agreed to similar terms and may need to raise more capital.

With Merrill’s net exposure to CDOs now down to $1.6 billion (the rest is hedged with “highly rated”, non-monoline counterparties), the worst of the pain is surely over—especially since most of the securities that remain date from 2005 and earlier, before underwriting became really sloppy. It has also halved to $7 billion its exposure to leveraged loans. The question now is whether the bank has enough profit-making oomph in other areas to return to full health. Its big wealth-management business is still doing well, and its international operations are growing. But the combination of a sickly share price and a purged balance-sheet may make it a tempting takeover target.

Because it sets a new benchmark for duff assets, the Lone Star deal has sent ripples through the banking industry. An Australian lender that co-invested with Merrill has reportedly already had to slash the value of its CDOs to ten cents on the dollar, because it held lower-rated tranches.

All eyes will now be on Citigroup and UBS, which vied with Merrill for top spot in the CDO league tables during the boom. UBS’s holdings are valued at between 30 and 40 cents on the dollar. Citi’s exposure of $18 billion is marked higher, at an average of 45 cents. Mike Mayo, an analyst at Deutsche Bank, thinks it

could face a further $7 billion hit. Not all securitised assets are the same, of course, and Citi argues that its CDO holdings are less noxious, and of an older vintage, than the stuff Lone Star picked up from Merrill. Still, in this era of fair-value accounting, securities are only worth what someone is willing to pay for them. And, as Merrill's bullet-biting deal shows, that seems to be very little.

South Korean banking

A game of patience

Jul 31st 2008 | SEOUL
From The Economist print edition

HSBC's difficult decision over Korea Exchange Bank

MISSING a deadline. Or missing a chance to build a meaningful presence in Asia's fourth-largest economy. As *The Economist* went to press that was the choice facing HSBC, whose dogged pursuit of Korea Exchange Bank (KEB) has become a litmus test of South Korean attitudes to foreign investment. HSBC had a deadline of July 31st for regulators to approve its purchase of a 51% stake in KEB from Lone Star Funds, a Dallas-based investment firm, for $6.3 billion. That date came and went. HSBC is set to announce a decision on whether to keep up the chase on August 4th.

That regulators missed the target-date is no surprise. South Korea's financial supervisor, the Financial Services Commission, began considering HSBC's application to acquire KEB only in late July, even though HSBC filed the application more than six months ago.

The regulator's tardiness stemmed from separate court proceedings investigating whether KEB's sale to Lone Star in 2003 was illegal, a case that has already stymied several attempts to sell the bank. Prosecutors have appealed against a judgment in June that acquitted Lone Star of charges of share-price manipulation. A final ruling is expected in the autumn. The regulator has said that it cannot approve a change in KEB's ownership before then.

HSBC faces a difficult choice. The country is overbanked on some measures and loan growth is slowing. The purchase price looks inflated to some, and there may be better uses of the bank's capital. But HSBC is also committed to expanding its presence in emerging markets, and KEB, South Korea's sixth-largest bank, does the job. It has strong ties to small- and medium-sized companies, as well as thriving trade-finance and foreign-exchange businesses. Its network of 340 domestic branches would further bolster HSBC's currently thin presence in the country.

The government arguably has even more to lose. President Lee Myung-bak has been at pains to present an amicable face to foreign business since his election. Mr Lee is acutely aware that KEB and Lone Star have become bywords for his country's alleged hostility to foreign investors. The fact that the regulator had started to review the application at all was seen as a favourable sign. The authorities in Seoul seem confident that HSBC will not pull out. If they are wrong, Mr Lee's charm offensive is in trouble.

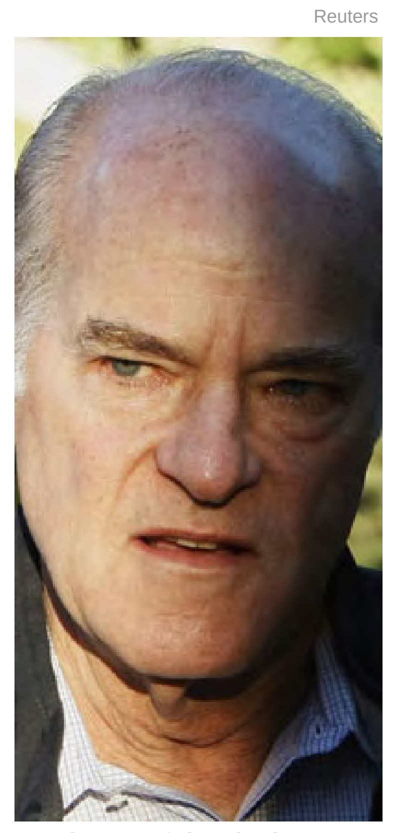
Private equity

You only list twice

Jul 31st 2008
From The Economist print edition

KKR tries to float, again

Reuters



Kravis, out of the shadows

THE original barbarians at the gate still want admission to polite society. Kohlberg Kravis Roberts (KKR), the buy-out firm which notoriously laid siege to RJR Nabisco in 1988, first tried to list on the stockmarket last year. That plan was scuppered by the credit crunch. Conditions remain dire: debt markets are closed, making big buy-outs almost impossible, and shares in Blackstone, a rival, have flopped since its perfectly timed flotation last year. Despite this, Henry Kravis and his cousin and co-founder, George Roberts, are determined to try again.

Why remains something of a mystery. After all, KKR's core business is predicated on the idea that being quoted is a disadvantage. KKR does not need capital, generates enough cash to pay junior employees handsomely and is famous enough not to need the extra profile a listing can bring.

One theory is that the two-stage flotation process will solve a headache: KKR Private Equity Investors (KPE), a Dutch vehicle which invests mainly in KKR buy-outs. KPE's shares have collapsed, and until the announcement of KKR's plans on July 27th, traded at less than half of their net asset value. Under the plan, KKR will first merge with KPE, giving its investors 21% of the combined entity and contingent rights that give some protection if the shares trade below net asset value after three years. The new company will then list in New York.

KKR doubtless believes that KPE's assets are cheap but simply restructuring their ownership is unlikely to convince investors. They are worried that the boom-era deals will lose money and that the buy-out industry, which is now far more crowded than in the past, will suffer an extended period of poor returns. The combined company will still be highly exposed to these factors. Deals struck at the peak of the market comprise about a quarter of KKR's private-equity assets under management, while the company's efforts to diversify have yet to make much of an impact. After the deal was announced, KPE's share price implied a market capitalisation of $10 billion-13 billion for the combined company, depending on the treatment of the contingent rights. This is far below KKR's indicative range of $16 billion-19 billion.

Sceptics argue that there are two other reasons for the float, both of which should raise red flags. First, KKR, desperate to diversify, wants a currency with which to buy other firms (in a delicious twist the firm hopes to expand into public equities). Second, 32 years after the firm's founding, existing shareholders want to sell out. There is probably a strong element of truth to these claims. KKR says its main shareholders are unlikely to sell, but they are subject only to a 180-day lock-up period.

KKR could make a case that a listing will help turn an entrepreneurial partnership into a business built to last. But to do so convincingly it will have to start behaving like a high-quality public company. That means providing meaningful disclosure about its portfolio, including its debt levels. A prospectus has yet to be issued, but on a conference call with KPE investors Mr Kravis and Mr Roberts appeared more comfortable promoting their firm than engaging in serious discussion about it.

Looking to the long term also means preparing for the exit of the two founders, who are both 64. An independent board has been promised, but they will still control the firm. KKR has thrived as a secretive autocracy. To be a successful public company these are precisely the qualities it will have to abandon.

Meinl Bank

Pulling the wool

Jul 31st 2008 | VIENNA
From The Economist print edition

Some Jersey-knit structures enrage activist investors

THE image of Austria's financial markets continues to corrode. Just weeks after the conclusion of a trial over improper use of funds at Bawag, a local bank, another scandal is gathering pace.

At the heart of this latest controversy, which has been bubbling for a year and involves some of Vienna's glitterati, is Meinl Bank, part of a coffee and food-store chain founded by Julius Meinl in 1862. Early in this decade Julius Meinl V, the head of the family today, transformed the bank into an investment-management dynamo. Mr Meinl, a Bentley-driving anglophile, turned part of Meinl's real-estate portfolio into a Jersey-listed fund, Meinl European Land (MEL), which did well until interest rates began to rise in 2006. At that point, Meinl Bank, which was acting through a Jersey-based subsidiary called MERE as MEL's manager, broker and marketmaker, had difficulty placing the fund's share certificates. So it parked them with an offshore company, which sold bonds to MEL to finance the purchase, in effect getting shareholders to maintain the share price at their own risk.

When these transactions came to light in July 2007, investors promptly lost confidence in two other funds with a similar relationship to Meinl Bank. Meinl International Power (MIP) had been set up to invest in power projects; Meinl Airports International (MAI) focused on airports and their facilities, especially in central Europe. Both MIP and MAI were at one time trading below the value of their cash assets.

All three funds certainly took good care of their parent. A leaked report by Austria's central bank (OeNB) and the Financial Market Authority (FMA) estimates that in 2006 Meinl Bank made about 60% of its income from its business with MEL. In 2007, with MIP and MAI added, it was over 80%, says the report.

Meinl Bank denies any wrongdoing but the gravy train is fast juddering to a halt. MEL was sold to Gazit Globe, an Israeli property company, last month, in a deal that will sever the fund's ties with Meinl Bank. On July 28th activist shareholders in MAI held an emergency general meeting in Jersey and succeeded in kicking out its remaining board members (three had already resigned) and putting in their own candidates. MAI's new board members have said that they will review all contracts with Meinl Bank and its subsidiaries. That includes a recent "option" for MAI to extricate itself from its Meinl relationship at a cost of about €32m ($50m). "A great day for Austrian capital markets," said Wolfgang Vilsmeier, the new chairman.

"The blackest day," countered Alexander Proschofsky, an activist shareholder who had rallied 250 investors to his cause at a similar meeting for MIP in Vienna but got a different outcome. In chaotic scenes, one board director was voted out and replaced by another, only for the situation to be controversially reversed by a late voter. Rumours of skulduggery—that certain shareholders had been promised a premium for their shares if they voted for the incumbent directors—swirled. "Don't worry," soothed a Russian investor. "It's no worse than Moscow in 1992."

Austrian financial watchdogs seem unable to sink in their teeth. The complexity of the structures, raising the question of whose law applies, is one problem. On July 14th Jersey's Financial Services Commission appointed inspectors to investigate MEL and MERE on allegations that MEL "provided financial assistance to itself" to buy its own shares. Public officials can also be sued for acting too rashly, so they tend to wait for a lead from the state prosecutor, who is investigating the entire complex saga on the basis of the OeNB/FMA report. It all feels very sluggish. "In America some people would already be in jail," comments a hedge-fund manager.

Economist.com FINANCE & ECONOMICS

Europe's monetary policy

The wages of sin

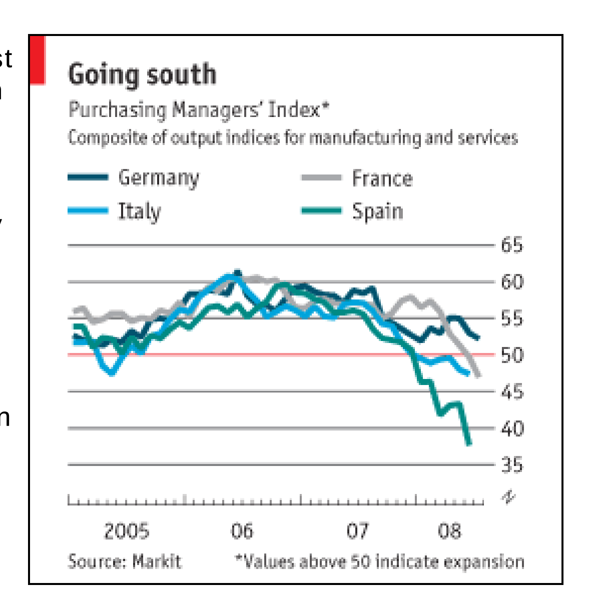
Jul 31st 2008
From The Economist print edition

The ECB has pursued a disciplined monetary policy. Its reward may be recession

PRUDENCE and virtue do not always receive their just desserts. Earlier this year, the prospects for the euro area's economy seemed, if not bright, then less dim than for some other parts of the rich world. High oil prices and scarcer credit were bigger worries for gas-guzzling, debt-ridden America than for the high-saving, fuel-efficient countries of continental Europe.

Things have turned out a little differently. America's economy has held up surprisingly well so far this year—helped, to be fair, by a big fiscal and monetary stimulus. Meanwhile the euro area, after a strong start, is sailing close to recession. GDP figures due to be published on August 14th are likely to show that the economy stagnated, or perhaps even shrank, in the second quarter. Jean-Claude Trichet, the head of the European Central Bank (ECB), whose rate-setting council meets on August 7th, has cautioned that any weakness is payback for an aberrantly strong first quarter. But the economic rot seems too deep to be fully explained by the euro area's earlier strength.

A clutch of indicators point to rougher times ahead. Business confidence has fallen sharply across the euro zone, according to a monthly European Commission survey published on July 30th. A closely watched activity index, which combines surveys of purchasing managers in services and manufacturing, fell in July to its lowest level since 2001. The gauge for France, whose economy had seemed resilient, is pointing to a fall in output (see chart). Germany's economy is now barely growing. Italy and Spain were already shrinking fast in June.



One explanation for the abrupt change of mood is that weaker demand in the currency zone's main foreign markets have at last started to hurt the economy. The euro area had leant heavily on strong export growth to keep it moving. America is now sucking in fewer imports. Sales to Britain have slowed too.

But the shift in economic fortunes is too sudden to be due solely to exports, according to Thomas Mayer of Deutsche Bank. Spending at home must have turned down too. Are consumers to blame? Total employment incomes are picking up but not by enough to stay ahead of higher inflation. Consumers are finding it harder to plug gaps in their spending power by borrowing, because banks are less willing to lend to them. But the downturn is still hard to pin on them, if only because they were contributing so little already. Consumption rose by just 0.2% in the first quarter after falling at the end of 2007. Even when credit was freely available, households were cautious about spending more.

Retrenchment by companies is a more likely culprit for the more recent drop in activity. Despite the shadow cast by the credit crunch and America's housing bust, firms had sustained their capital spending. Animal spirits are now flagging. Profit margins are under pressure from high oil prices and, latterly, from a pickup in wage growth. Firms that had been willing and (despite the crunch) able to borrow for investment now seem more circumspect. The growth of lending to firms other than banks has slowed materially for the first time since the credit squeeze began.

The economy's apparent seizure sits uncomfortably with the ECB's decision to raise interest rates to 4.25% on July 3rd. The bank's rate-setting council knew it was tightening policy during a sticky period for the economy. But it hoped the increase would send a message that it was serious about controlling inflation. The bank's worry was that today's inflation, which inched up to 4.1% in July, might influence how wages and prices are set for the future. If firms and employees think high inflation will persist, it will

be harder for the ECB to meet its objective of keeping inflation “below but close to” 2% in the medium term.

The ECB was right to be concerned. The euro area quickly sheds its air of virtue when it comes to pay. Wage settlements in Italy picked up from 3.3% in May to a three-year high of 3.6% in June, despite rising unemployment. The Italian wage-bargaining process allows workers to claim for extra pay if inflation turns out to be higher than expected, says Gareth Claase, an economist at the Royal Bank of Scotland. The planned rate for 2008 is 1.7%, well below Italy’s inflation rate of 4.1%. Wages are also set to pick up in Spain, where inflation is still higher, at 5%. Two-thirds of Spanish wage contracts contain a clause that compensates workers, at least in part, for unexpected inflation. German workers are pushing for higher pay too, after a long period of wage restraint. Striking airline workers, claiming a rise of 9.8%, have grounded scores of Lufthansa flights this week.

Upward pressure on pay is likely to lead to more job losses in Italy and Spain, which are already struggling with poor competitiveness and rising unemployment. Accelerating wages will also reinforce fears that inflation will prove hard to bring down. That will make the ECB reluctant to cut rates even if the economy dips into recession. The recent drop in oil prices is one piece of good news. It means inflation may well have peaked in July, reckons Julian Callow at Barclays Capital, though it may start to fall meaningfully only in the final months of this year. If so, rate cuts are unlikely before 2009, if at all. For the ECB, virtue may have to be its own reward.

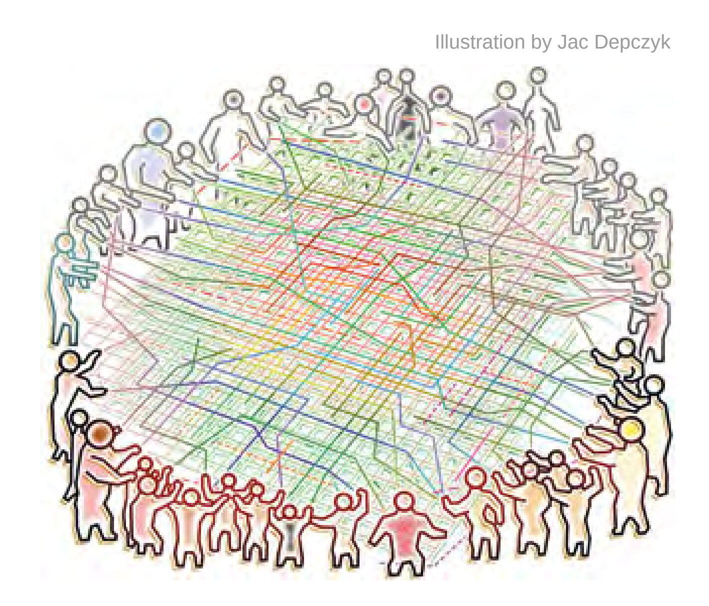
Economics focus

Commons sense

Jul 31st 2008
From The Economist print edition

Why it still pays to study medieval English landholding and Sahelian nomadism

Illustration by Jac Depczyk



IN 1968 Garrett Hardin, a professor of biology, published an article in the journal *Science* that was to have a profound impact on the social sciences, including economics. In it, he explained "The Tragedy of the Commons". "Picture a pasture open to all," he wrote. A herdsman grazing his animals on the land will have an incentive "to add another animal to his herd. And another; and another…But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy." Each herdsman captures all the benefit from an extra animal but the cost of overgrazing is borne by all.

Hardin's example was not new. It was first mentioned by a mathematician, William Foster Lloyd, in 1833; the idea goes back to Aristotle. But it struck a chord. The idea seemed plausible in itself and was borne out by history. Britain had had a system of common land before the 18th century; its enclosure (privatisation by landowners) made possible the agricultural revolution.

Hardin's analysis suggested two things. First, that the commons are somehow backward, characteristic of tribes living in rainforests, or of pastoral nomads in African drylands. Second, that tragedy is inevitable. From the point of view of efficiency, the commons should probably be replaced by systems of public or personal ownership. An unsolvable problem of the past might not seem like fertile ground for debate. But 40 years after Hardin's article, the problem of the commons is still pressing.

It is not simply that three-quarters of those living on less than $2 a day still depend in some way on commonly held resources. The concept of the commons is also spreading to new areas. Their essential feature is that they share one characteristic with private property and one with public goods. Like public goods, they are not "excludable": the common resource is too extensive to keep people out very easily. But they are also "subtractable" (or "rivalrous"), like private property: if one person uses them, another's access is diminished. (With a classic public good, such as street lighting, one person's usage does not affect anyone else.) Many things other than rainforests or drylands share these attributes.

Indeed an entire industry seems to have sprung up to identify "new commons" (such as the internet) or to claim as commons things not always seen that way. Silence, for example, should arguably be seen as a commons, because if one person interrupts it, there is less of it for others to enjoy. At the biennial meeting of the International Association for the Study of the Commons in July, Charlotte Hess of Syracuse University extended the concept of the commons from traditional natural resources to things such as medicine, knowledge and what are usually seen as global public goods, like the oceans and Antarctica.*

The other implication of Hardin's analysis—that the commons are doomed—came under attack early on. When economists began to look at how systems of commonly managed resources actually worked, they found to their surprise that they often worked quite well. Swiss Alpine pastures; Japanese forests; irrigation systems in Spain and the Philippines. All these were examples of commons that lasted for decades. Some irrigation networks held in common were more efficiently run than the public and private systems that worked alongside them. Though there were failures, too, it seemed as if good management could stave off the tragedy. Before he died, Hardin admitted he should have called his article "The Tragedy of the Unmanaged Commons".

In "Governing the Commons", which was published in 1990, Elinor Ostrom of Indiana University described the rules needed to keep a commons going. She showed that there are almost always elaborate conventions over who can use resources and when. What you take out of a commons has to be proportional to what you put in. Usage has to be compatible with the commons' underlying health (ie, you cannot just keep grazing your animals regardless). Everyone has to have some say in the rules. And people usually pay more attention to monitoring abuses and to conflict resolution than to sanctions and punishment.

The comedy of the commons

Defining the commons is also vital. In systems run by a few families, people are very precise about which bit of forest or seashore they manage. In systems too large for a single group, there are layers of decision-making: the nomads of the Sahel, for example, used to have overlapping informal authorities up and down the Niger river. Tragedy often occurs when governments come along in hobnailed boots and trample over these informal systems, as happened in the Sahel during a dreadful drought in the 1970s.

The big unanswered question is how far the things that economists have learnt about traditional commons apply to the "new commons". In the case of global warming, the commons is the whole earth. It is not easy to see how rules that encourage shared responsibility can be made to stick. Yet this has happened in other international examples. Mrs Ostrom suggests the so-called "miracle of the Rhine"—the clean-up of Europe's busiest waterway—should be seen as an example of successful commons management because it was not until local pressure groups, city and regional governments and non-governmental organisations got involved that polluters were willing to recognise the costs they were imposing on others, and cut emissions. An inter-governmental body (the International Commission for the Protection of the Rhine) did not have the same effect.

The economics of the new commons is still in its infancy. It is too soon to be confident about its hypotheses. But it may yet prove a useful way of thinking about problems, such as managing the internet, intellectual property or international pollution, on which policymakers need all the help they can get.

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* More information is available at http://dlc.dlib.indiana.edu

Gene doping

Genetically Modified Olympians?

Jul 31st 2008
From The Economist print edition



On the eve of the Beijing Olympics, we examine the prospect of athletes using gene therapy to enhance their performance—and of catching them if they try

FOR as long as people have vied for sporting glory, they have also sought shortcuts to the champion's rostrum. Often, those shortcuts have relied on the assistance of doctors. After all, most doping involves little more than applying existing therapies to healthy bodies. These days, however, the competition is so intense that existing therapies are not enough. Now, athletes in search of the physiological enhancement they need to take them a stride ahead of their opponents are scanning medicine's future, as well as its present. In particular, they are interested in a field known as gene therapy.

Gene therapy works by inserting extra copies of particular genes into the body. These extra copies, known as "transgenes", may cover for a broken gene or regulate gene activity. Though gene therapy has yet to yield a reliable medical treatment, more than 1,300 clinical trials are now under way. As that number suggests, the field is reckoned to be full of promise.

As far as sport is concerned, the top transgene on the list, according to Jim Rupert, an anti-doping expert at the University of British Columbia, is the gene for erythropoietin. EPO, as it is known for short, is a hormone that regulates the production of red blood cells. It is already available as a drug (it was one of the first products of biotechnology companies in the late 1980s), and it has been used widely in endurance sports such as long-distance cycling. But if an athlete's body could be stimulated to make more of it that would—from the athlete's point of view—be better than taking it in drug form.

No dopes

The reason is that EPO, like most performance-enhancing drugs, is banned. However, bans work only when they are enforced, and that requires a test which can distinguish synthetic EPO from the natural hormone made by an athlete's body. At the moment, this is possible. The EPO from a biotechnology company's vats has a slightly different chemical structure from the natural sort. But the evidence suggests that EPO produced as a result of gene therapy will be far harder to distinguish.

In fact, EPO doping may already have happened. In 2006, during the trial of Thomas Springstein, a German coach accused of doping his underage charges, it transpired that Repoxygen, an experimental gene-therapy product containing the gene for EPO, was already making the rounds on the black market.

Repoxygen causes a controlled release of EPO, but only when the body senses a lack of oxygen. Or at least it does so in mice.

Whether black-market Repoxygen has won any races is unknown. But several other genetic therapies being tested in mice also look as if they may interest the sort of men and women who feel their athletic performance needs a little boost.

Like EPO, vascular endothelial growth factor spurs red-blood-cell formation and thus helps to supply tissues with oxygen. The gene that encodes this protein is the subject of several medical studies, and is thus a prime candidate for sporting use.

IGF-1 is also a growth factor—though it promotes brawniness in muscle rather than the production of blood cells. Inject the gene that encodes it into a particular muscle and you can affect that muscle and no other. Such specificity might be of interest to people like tennis players and javelin throwers. Meanwhile, a gene called *MSTN* encodes a protein called myostatin, which limits rather than enhances muscle development. In this case, therefore, the doping is designed to switch the gene off. The result is what have been nicknamed “Schwarzenegger” mice.

Once brawny muscles have been acquired, whether licitly or illicitly, other genes might then be used to tune their activity. Tweaking *PPAR-delta*, for instance, alters the way muscles obtain their energy. The individual fibres that comprise a muscle can run in one of two modes. In slow-twitch mode they burn fat, and are less prone to fatigue. In fast-twitch mode they burn sugar. That makes them prone to fatigue, but is useful for delivering short bursts of power. Both modes are valuable to athletes, but in different types of event. The ability to make muscle fibres specialise in one mode or the other would thus be of great benefit to unscrupulous coaches. *PPAR-delta* controls the switch.

Finally, animal studies on the genes for natural pain-killers called endorphins suggest that these could be used to limit the perception of pain—another desirable trait for athletes. That might consign the adage “no pain, no gain” to the history books.

There is thus a lot of potential. And although—the Springstein incident aside—there is no evidence that any of these techniques have made their way into real athletes, the authorities are taking no chances.

The World Anti-Doping Agency (WADA), sensed several years ago which way the wind was blowing. In 2003 it issued a proclamation banning “the non-therapeutic use of genes, genetic elements and/or cells that have the capacity to enhance athletic performance”. It followed this by putting its money where its mouth was. Since much of gene doping’s allure derives from its alleged undetectability, WADA committed $7.8m—a quarter of its research budget for 2004-07—to 21 projects intended to develop ways of detecting it. Now another $6.5m is up for grabs.

Broadly, there are two ways of spending this money usefully. The direct approach focuses on improving ways of detecting differences between truly natural and “therapeutically enhanced” proteins or, failing that, on detecting the “vector” used to inject the transgenes into the places where they will operate. Such vectors are often particular sorts of virus.

The indirect approach seeks second-hand signs of the transgene or its vector. Viruses, for example, may produce a characteristic immune response that can be detected. Meanwhile the transgenes themselves may alter the body’s proteome (the set of proteins active in it at any given time) or its metabolome (a list of all the by-products of the chemical reactions that go on in each cell). Changes to either of these “-omes” can, in principle, be detected in blood or urine. What is needed are points of comparison. This requires working out the typical “biosignatures” of elite sportsmen as a group, or indeed of each individual, as a baseline.

Testing times

Whether gene doping will make its debut in Beijing remains to be seen—or perhaps not, if it is as hard to detect as its protagonists hope. Theodore Friedmann of the University of California, San Diego, who heads WADA’s Gene Doping Panel, reckons it probably won’t happen this time. He does not think there is, yet, a form of gene therapy that could easily be used to enhance performance. As for Dr Rupert, he says, “I would be surprised. But I have been surprised before.” It would be ironic if the first successful application of gene therapy were to people who are among the fittest on the planet. But it is possible.

Plant disease

When the chips are brown

Jul 31st 2008
From The Economist print edition

A new bacterium may be responsible for turning potato crisps a nasty colour

POTATO crisps—or chips, to those ignorant of the pleasures of a bag of real chips, with lashings of salt and vinegar, after a night in the pub—are the world's most-nibbled snacks. But that may change if a bizarre, new disease becomes widespread. "Zebra chip", as this disease is known, causes crisps to develop stripes, and growers and crisp-makers alike are worried. The pattern renders chipping potatoes unsaleable and some farmers have lost much of their crop as a result.

Zebra chip was first noticed in Mexico, in 1994. By 2000 it had spread to Texas. It has subsequently appeared in other states, including Arizona and California. The disease also exists in Guatemala and has now turned up in New Zealand.

Dr. Joseph E. Munyaneza



Have potato crisps had their chips?

Though it brings no known risk to human health, this is bad news. What seems to be happening is that bands of cells within each potato tuber are having their starch converted into sugar, and that the sugar caramelises when the tuber is cooked. What no one is sure about is what is doing the conversion.

Part of the answer is an insect called the potato psyllid. Last year Joe Munyaneza, an entomologist at the Yakima Agricultural Research Laboratory in Washington state, found that tubers from plants exposed to these insects showed typical zebra-chip symptoms, while those from unexposed plants had none. But the potato psyllid is merely the vector. The actual pathogen is still elusive.

The most likely culprit is a newly discovered bacterium. Earlier this year researchers in New Zealand began investigating a psyllid infection in glasshouses growing tomatoes and peppers (plants closely related to potatoes). They identified a previously unrecorded species of *Candidatus*, a group of disease-causing bacteria that infect many sorts of plant. In June Biosecurity New Zealand, the government agency charged with protecting the country's crops from such threats, announced that this new bacterium had also been detected in potato crops. Genetic markers for the bacterium were sent to America and the Animal and Plant Health Inspection Service confirmed in July that the same form of *Candidatus* had been found in potatoes from two fields in Texas that were exhibiting zebra-chip symptoms.

Work is now under way to discover more about it, and to establish if it really is the cause of zebra chip. It appears to be related to a bacterium transmitted by the potato psyllid's relative, the citrus psyllid. This older species causes "citrus greening" or huanglongbing disease, and is extremely damaging to citrus farms.

Officials in New Zealand say they have no idea how the new species arrived in their country. But psyllids are light and can travel on the wind, so they could simply have been blown there. That raises concerns that zebra chip could turn up in other areas. If it spreads much further, and no countermeasures can be developed, then the potato crisp itself could become an endangered species.

Alzheimer's disease

A tangled tale

Jul 31st 2008 | NEW YORK
From The Economist print edition

Small advances are making Alzheimer's a bit less mysterious

THE past few months have not been good for Alzheimer's research. Trials of two drugs and one vaccine have flopped. This was the dour background to the International Conference on Alzheimer's Disease, held in Chicago this week.

The conference did, however, bring some encouraging news. John Ronald, of the University of Western Ontario, and his colleagues have managed to identify the brain plaques associated with the disease using magnetic resonance imaging. Previously, Alzheimer's could be distinguished with certainty from other dementias only by post-mortem examination. The Cure Alzheimer's Fund, a charity, also had an important finding. It announced that its mapping of the disease's genetic basis has found 70 genes that may be involved, far more than expected.

The imaging advance should make it easier to identify people with the disease, and thus start treatment early, while the genetic one may help researchers seeking to develop such treatments. However, experts disagree fundamentally about what drugs aimed at treating Alzheimer's should be trying to do.

One school of thought, currently dominant, argues that the disease wreaks its damage by causing the formation of the plaques that Mr Ronald's brain scanning is now able to identify. These are sticky bits of a wayward protein called beta-amyloid that gum up the spaces between nerve cells. A rival camp, however, points to the conversion of another protein, tau, into tangles that form inside nerve cells, and suggests this is the real cause of dementia.

The beta theory has taken a knock of late, as the three failed therapies mentioned above all relied on it. In contrast, the tau camp is rising. A team led by Claude Wischik, a professor of mental health at the University of Aberdeen, in Scotland, who also chairs a firm called TauRx Therapeutics, presented six papers to the conference describing the early success of a drug called methylthioninium chloride (MTC) in inhibiting the progression of Alzheimer's. Tau researchers already knew that MTC dissolves tau tangles in test tubes, and also prevents the aggregation of tau into tangles in the first place. Dr Wischik's papers report that the drug appears to work in human brains, too, paving the way for full-scale trials.

This is an impressive result. But beta boosters remain unbowed. Lilly, a large American drug firm, unveiled the results of early trials of two different anti-amyloid drugs that it plans to investigate further. Meanwhile two other firms, Elan and Wyeth, declared that despite earlier setbacks they are taking bapineuzumab, a drug that removes some of the amyloid from patients, to late-stage trials.

In the end, both approaches may be needed. Certainly, both beta and tau are up to no good, whichever of them turns out to be the more culpable. As with AIDS, Alzheimer's may, in the end, require a cocktail of drugs that do different things if it is to be tackled successfully.

Economist.com SCIENCE & TECHNOLOGY

Space flight

Knight in shining armour

Jul 31st 2008 | MOJAVE
From The Economist print edition

Private space tourism is just the beginning

A COMPANY called Scaled Composites is to aircraft makers what Ozwald Boateng is to tailors. If Sir wants something bespoke but slightly outlandish, Sir has most definitely come to the right place. Burt Rutan, the firm's founder, supervised the construction of *Voyager* and *GlobalFlyer*, two aeroplanes that flew non-stop around the world. But of the 39 craft that have been built and tested at its base in Mojave, California, since 1974, none is more extraordinary than *White Knight Two*.

White Knight Two is not merely an aircraft. It is the first stage of a spaceship. "Sir", in this case, is Sir Richard Branson—or, rather, Virgin Galactic, one of his companies. What Virgin has ordered is the largest carbon-composite plane yet constructed. It consists of a single wing 43 metres (140 feet) long (an engineering feat in itself), fitted with twin booms and fuselages. The second stage, the less imaginatively named *SpaceShipTwo*, will be slung in the middle of the wing and lifted to an altitude of 15km. There, it will be released. It will then make its own way to the edge of outer space, to the acclamation of six fare-paying passengers.

AP

Let the tourney begin

At $200,000 a seat, that should be good business. Often, however, the most interesting thing about a new technology is not what it is designed to do, but what it can do that was not in the original specification. And, according to Virgin Galactic's president, Will Whitehorn, the possibilities there are growing by the day. A variety of large objects other than *SpaceShipTwo* could be slung under the wing of *White Knight Two*. One application being explored is flying replacement engines for Boeing 747s around the world. *White Knight Two* could also launch small satellites into space at a cost of less than $2m each. And it would be a good way of taking pilotless reconnaissance drones to otherwise inaccessible places and then launching them. In the past two months Mr Whitehorn has, he says, been approached by 14 large organisations interested in using *White Knight Two* or buying a plane just like it. Purchasing one outright would cost $35m-40m.

The craft is surprisingly acrobatic, too. That means it is able to offer passengers zero-gravity flights. At the moment, a Boeing 727 provides such flights commercially for the Zero Gravity Corporation, a travel company. But the 727 is an ageing and thirsty vehicle. Mr Whitehorn reckons that, subject to the appropriate permissions, *White Knight Two* could offer zero-G flights for around $1,000 each, a fifth of the fare now charged.

Alan Stern, until recently the associate administrator of science programmes at NASA, America's space agency, reckons the combination of *White Knight Two* and *SpaceShipTwo* could also revolutionise the study of atmospheric physics. Routine flights into the upper atmosphere by *White Knight Two* on its own would offer opportunities for regular experimental work at high altitude. That would make it possible to study the heart of the ozone layer. But the combined craft would also allow access to the "ignorosphere", a frustrating region 50-80km above the Earth's surface that is too high for conventional aircraft and too low for satellites. This would permit the study of so-called noctilucent clouds, the highest in the atmosphere, which are thought to have an important role in climate change. *White Knight Two* and *SpaceShipTwo*, says Dr Stern, could fly more experiments to noctilucent clouds in six months than NASA has managed in 40 years. The $200,000 price of a ride is about a tenth of the cost of the small, unmanned "sounding" rockets now used to investigate this region.

Perhaps the most intriguing research to come out of the White Knight project, however, is in aeronautic design. Pending patents, Mr Rutan is cagey about the details. But he says that building the aircraft has demonstrated something "very significant" about the main structural support on a wing (known as a wing spar) and that, as a consequence, his company's technology will allow the construction of an aeroplane of "any size".

If true, that is very interesting indeed. In theory, *White Knight Two* already has the capacity to carry a single-passenger spaceship that is capable of getting not just into space, but into orbit. Carrying one person into orbit in this way is probably not commercially viable. But if a larger high-altitude jet could be built, larger orbiters would also be possible. "We've made layouts of subsonic launch airplanes that could put six people in orbit off this airport," he says. But the next-generation aircraft would have to be bigger. "Much bigger. Much bigger," says Mr Rutan, with a twinkle in his eye.

Evolution

Praying for health

Jul 31st 2008
From The Economist print edition

Religious diversity may be caused by disease

SOME people, notably Richard Dawkins, an evolutionary biologist at Oxford University, regard religion as a disease. It spreads, they suggest, like a virus, except that the “viruses” are similar to those infecting computers—bits of cultural software that take over the hardware of the brain and make it do irrational things.

Corey Fincher, of the University of New Mexico, has a different hypothesis for the origin of religious diversity. He thinks not that religions are like disease but that they are responses to disease—or, rather, to the threat of disease. If he is right, then people who believe that their religion protects them from harm may be correct, although the protection is of a different sort from the supernatural one they perceive.

Mr Fincher is not arguing that disease-protection is religion’s main function. Biologists have different hypotheses for that. Not all follow Dr Dawkins in thinking it pathological. Some see it either as a way of promoting group solidarity in a hostile world, or as an accidental consequence of the predisposition to such solidarity. This solidarity-promotion is one of Mr Fincher’s starting points. The other is that bacteria, viruses and other parasites are powerful drivers of evolution. Many biologists think that sex, for example, is a response to parasitism. The continual mixing of genes that it promotes means that at least some offspring of any pair of parents are likely to be immune to a given disease.

Mr Fincher and his colleague Randy Thornhill wondered if disease might be driving important aspects of human social behaviour, too. Their hypothesis is that in places where disease is rampant, it behoves groups not to mix with one another more than is strictly necessary, in order to reduce the risk of contagion. They therefore predict that patterns of behaviour which promote group exclusivity will be stronger in disease-ridden areas. Since religious differences are certainly in that category, they specifically predict that the number of different religions in a place will vary with the disease load. Which is, as they report in the *Proceedings of the Royal Society*, the case.

Proving the point involved collating a lot of previous research. Even defining what constitutes a religion is fraught with difficulty. But using accepted definitions of uniqueness, exclusivity, autonomy and superiority to other religions they calculated that the average number of religions per country is 31. The range, though, is enormous—from 3 to 643. Côte d’Ivoire, for example, has 76 while Norway has 13, and Brazil has 159 while Canada has 15. They then did the same thing for the number of parasitic diseases found in each country. The average here was 200, with a range from 178 to 248.

Obviously, some of the differences between countries are caused by differences in their areas and populations. But these can be accounted for statistically. When they have been, the correlation between the number of religions in a place and how disease-ridden it is looks impressive. There is less than one chance in 10,000 that it has come about accidentally.

The two researchers also looked at anthropological data on how much people in “traditional” (ie, non-urban) societies move around in different parts of the world. They found that in more religiously diverse (and more disease-ridden) places people move shorter distances than in healthier, religiously monotonous societies. The implication is that religious diversity causes people to keep themselves to themselves, and thus makes it harder for them to catch germs from infidels.

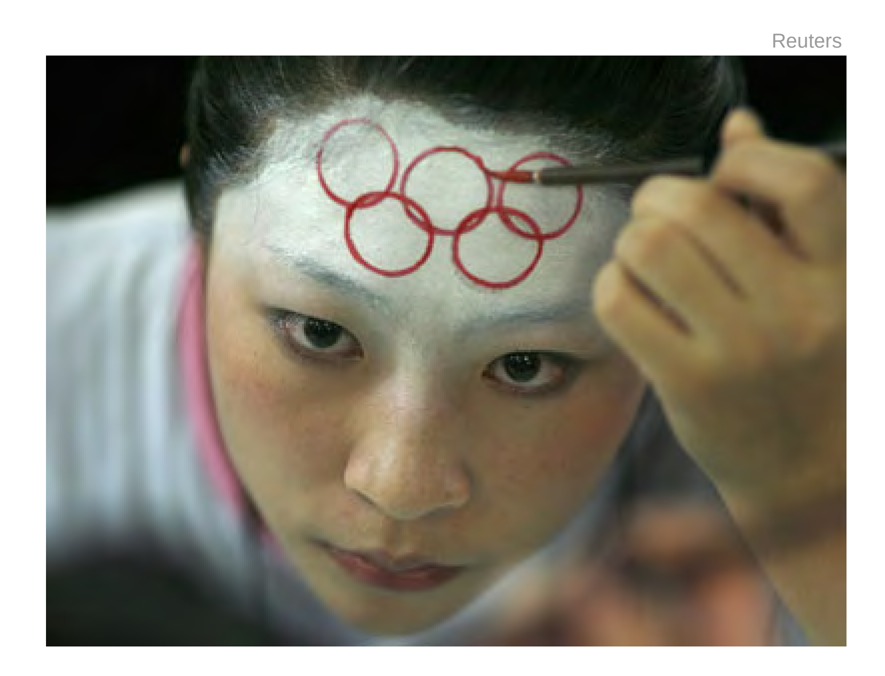
Of course, correlation is not causation. But religion is not the only cultural phenomenon that stops groups of people from mixing. Language has the same effect, and in another, as yet unpublished study Mr Fincher and Dr Thornhill found a similar relationship there too. Moreover, their search of the literature turned up work which suggests that xenophobia is linked psychologically with fear of disease (the dirty foreigner…). Perhaps, then, the underlying reason why there is so much hostility between ethnic groups is nothing to do with the groups themselves, but instead with the diseases they may bring.

Art for the Olympics

Beijing blues

Jul 31st 2008 | BEIJING
From The Economist print edition

Reuters



Visitors will have to look hard to see any interesting art in the Chinese capital. Museum shows are dull and the new foreign galleries are anxious not to offend

ONE of the principal artistic events marking the Olympic games in Beijing serves as a reminder of how slow the Communist Party can be to change. "Colours and Olympism", at the National Art Museum of China, includes large paintings hastily commissioned to show off the heroism of Chinese soldiers in response to the deadly earthquake in Sichuan Province in May. Mao Zedong, whose calligraphy adorns the museum entrance, would be proud that his efforts to make art serve politics have not been abandoned.

Baron Pierre de Coubertin, the founder of the modern Olympic games, might be relieved too that his vision of a festival combining sport and art has survived. De Coubertin wanted the games to include competitions in architecture, sculpture, painting, music and literature. Between 1912 and 1948 art competitions were held alongside the games before being abandoned, partly because of worries that professional artists were undermining the Olympic principle of amateurism. These were revived in 2000, when artists were awarded prizes for works of art with a sporty theme, and the artworks were later displayed at the Olympics in Sydney.

In Beijing, such tradition is being upheld with little sign of relish on the government's part, much less imagination. A great deal has changed since Mao's day when art served only to depict the glories of communism. Avant-garde work, some of it overtly disrespectful of Mao and more subtly of the party itself, abounds in privately run galleries in Beijing and Shanghai. Some of it has become very expensive.

During the games, the government aims to stage "Olympic Fine Arts 2008", an exhibition of hundreds of sports-themed art from around the world, with prizes to be handed out. ("Art makes the Olympics more beautiful" is its slogan). As the days run out before its opening, though, publicity has been negligible. The show's English-language website does not even give a starting date (August 8th, the day the games begin, says an organiser), let alone details of how to buy tickets.

For more exciting fare, visitors should head to the 798 arts district on Beijing's north-eastern edge, a cluster of former Maoist-era factories that is now home to some lively privately run galleries, shops and cafés. The district has boomed recently, thanks to canny local-government officials who realised that the area had become a big attraction for tourists and collectors. Notwithstanding their distaste for some of

the art, they decided to save the artists from eviction and give them some creative leeway. In early August PaceWildenstein planned to become the first New York gallery to open in the district.

There may be no official Olympic cultural events in 798—it is still too edgy a scene to be endorsed by the conservative ministry of culture—but local officials understand that visitors will want more than the central government's staid official arts programme. They have been busy sprucing up the area and putting in a car park, although Kai Heinze, director of the Faurschou gallery in 798, says his plans to hold an exhibition of sports-themed pictures by Andy Warhol have been held up by cultural bureaucrats who reportedly want only Chinese art to be put on display. Dozens of foreign leaders are reportedly planning to visit during the games. An official says visitors will be shuttled round 798's old factories, free of charge, in electric buggies.

One attraction in 798 will be the Ullens Centre for Contemporary Art, the area's first not-for-profit gallery, which has been built by a wealthy Belgian couple, Guy and Myriam Ullens, and opened last November. Its latest exhibition, which began on July 19th and will run through the Olympics, is everything that the officially sponsored art shows are not. One of its most striking exhibits is a specially commissioned installation by a female Chinese artist, Yin Xiuzhen. Visitors walk through a metal vagina-like opening into a large pink padded womb-like enclosure made of shirts, with a soothing watery sound playing. Another artist, Sui Jianguo, makes an obligatory dig at Mao, depicting the great leader's huge outstretched arm as being severed at the shoulder.

But Beijing is unlikely to see much bohemian revelry this month. Intense security and much tighter visa controls in the build-up to the Olympics may make access to the 798 area unpredictable and keep free-spirited foreigners away. Some are griping already that art is being given only a limited offering during the games. "It's like white noise, nothingness", says a British artist. One of the fiercest Chinese critics of the games is one of the country's most famous artists, Ai Weiwei, who helped design the iconic centrepiece of the whole show, the "bird's nest" stadium where the opening ceremony will be held. The Chinese authorities, he says, lack the bravery or ability to "break through the restraints of ideology". Mr Ai says officials dismissed suggestions that Beijing airport's new terminal, designed by Sir Norman Foster and opened for the games, should be adorned with modern art. "The party," he says, "is completely distrustful of art."

The destruction of old Beijing

Going, gone

Jul 31st 2008
From The Economist print edition

Hurry, to catch China's medieval capital

IN A few short years China’s Communists have used the excuse of the Olympic games to level the medieval city built by the great Ming emperor, Yongle. Beijing was long Asia’s ecumenical Rome, but its 2,500 or so religious sites are now reduced to a few dozen temples mainly for tourist consumption. The Communists have also destroyed Beijing’s social fabric, cutting through rich threads of community habit, shared memory and (what always infuriated them) subversive resistance to the madder impulses of higher authority. In different ways, these three books are superb guides to a Beijing that heart-wrenchingly is no more.

Jasper Becker highlights the breathtaking cynicism of this orgy of destruction; even the Cultural Relics Bureau formed a property-development company to pull down buildings in its charge. Yongle had used 200,000 convicts and press-ganged peasants for his project. Today a peasant-labour force of 1.3m has worked on 7,000-odd giant construction sites that have killed, in a hushed-up way, between 2,000 and 3,000 migrant workers a year. As for the city’s residents, Beijing’s average life expectancy is now well below the national average, thanks to smog and urban stress. So much for the promised clean, green “People’s Olympics”.

AP

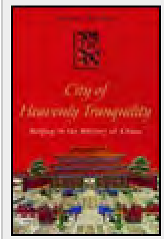


The way it was

But Mr Becker, a British journalist, offers something much richer than a work of reportage. “City of Heavenly Tranquility” has two particular strengths. One is his reweaving of the threads of Beijing’s past to recreate the city of street markets, temple fairs and the “little games” that so delighted Beijingers: for instance, their passion for keeping fighting crickets, fed with honey, and for inserting tiny carved flutes of bamboo into the tail-feathers of pigeons; whole flocks created aerial music over this reviewer’s courtyard house just a decade ago. In search of such richness, Mr Becker writes with sympathy and humour of meetings with the last court eunuch; with some of the remaining Manchus who only a century ago ruled China but today are all but invisible; and with those few brave people who from the beginning recognised the Communists as being a danger to Beijing’s great heritage.

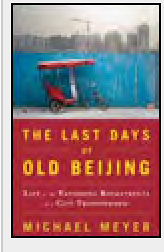
The other strength is the depiction of Beijing as a canvas for the projection of others’ fantasies. In the case of 17th-century Jesuits or 20th-century Westerners in search of the exotic, this was fairly harmless. With purges, famine and urban destruction, Mao Zedong visited immense grief on a city he treated as a blank page. But it is China’s recent dictators who have finished off Beijing, bulldozing its past with the criminal approval of the world’s leading architects throwing up “signature” structures (I.M. Pei is the honourable dissenter). When Albert Speer, son of Hitler’s architect, was called in to make the new city even more bombastic, he explained: “What I am trying to do is to transport a 2,000-year-old city into

City of Heavenly Tranquility: Beijing in the History of China
By Jasper Becker



Oxford University Press; 371 pages; $27.95. Allen Lane; £22

The Last Days of Old Beijing: Life in the Vanishing Backstreets of a City Transformed
By Michael Meyer

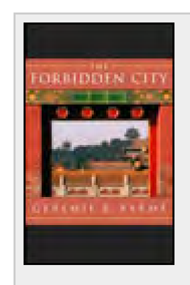


Walker & Company; 355 pages; $25.99. Bloomsbury; £20

The Forbidden City
By Geremie R. Barmé

the future. Berlin in the 1930s, that was just megalomania."

Do not neglect two other books. Michael Meyer tells the story of Beijing's destruction from the perspective of one tiny *hutong* (narrow lane) neighbourhood to the south of Tiananmen Square where he taught in a school. A spiritedness shines through among his earthy neighbours, even in the face of what Mr Meyer calls "the Hand", which, visiting always at night, paints the Chinese character for "destroy" on houses that are to be razed.



Harvard University Press; 251 pages; $19.95. Profile Books; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Until very recently, numberless *hutong* ran around the Forbidden City like the ramshackle castle town huddled against the surreal, claustrophobic Gormenghast. Indeed, one of Geremie Barmé's many services is to show how Beijing served as inspiration for Mervyn Peake, who was born in China. "The Forbidden City" is the latest in an excellent series from Harvard University Press and Profile Books. A compact volume, it is an ideal and elegant history, good for keeping in the hand while visiting the vast extraordinary complex, which has at least been preserved. Mr Barmé, a noted Australian scholar of modern China, is as good at describing the Communists' imperially-derived impulses as he is at banishments from the medieval court.

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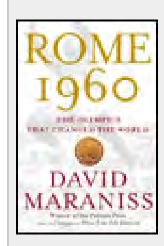
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Harvard University Press; 251 pages; $19.95. Profile Books; £15.99

Rome Olympics, 1960

The way we were

Jul 31st 2008
From The Economist print edition

Rome 1960: The Olympics that Changed the World
By David Maraniss



Simon & Schuster; 496 pages; $26.95

Buy it at
Amazon.com
Amazon.co.uk

DAVID MARANISS calls the 1960 Olympic games the Olympics that “changed the world”. It would have been more accurate, though less compelling, if the author had described his book about the Rome games as the life and times of Avery Brundage.

“Blocky, balding, and bespectacled”, Brundage dominated amateur athletics as president of the International Olympic Committee from 1952 to 1972. He resisted all concessions to modernity and his greatest dread was creeping commercialism. Brundage railed against the threat of sport becoming part of the entertainment industry and encouraged all countries to stop athletes from cashing in on their sporting fame. A Californian decathlete was ordered to say no when Kirk Douglas invited him to play a black slave in “Spartacus”, a film that came out the year of the Rome games. A hurdler from Mississippi was suspended indefinitely after he married on television and accepted the show’s wedding gifts. A sprinter from New Jersey had to reject a summer job playing semi-professional baseball. (Mr Maraniss’s examples are usually American.)

Despite Brundage, there was sponsorship at the games, and even performance-enhancing drugs, though such activities were necessarily surreptitious. Armin Hary, a sprinter in the united German team that ranked fourth in the medals table behind the Soviet Union, America and Italy, accepted payments from rival footwear makers. He outraged his duped sponsors by wearing Puma shoes for the race, changing into an Adidas pair to mount the medals stand. American weightlifters discreetly pocketed under-the-table loans and bonuses from a dumb-bell company.

Mr Maraniss rightly finds Brundage guilty of hypocrisy as he contrasts the great panjandrum’s fierce opposition to business sponsorship with his easy tolerance of state subsidies. Why, he asks, were the Soviet Union and its satellites permitted to compete in the Olympics when they provided their athletes with houses and well-rewarded phoney jobs? Brundage had a soft spot for dictatorships, whether of the left or right, and was impervious to such arguments.

He was just as stubborn in resisting what he saw as the intrusion of politics into sport and especially the campaign to have white-supremacist South Africa banned from the games. The Olympics, he argued, could not penalise a sports team “for something its government does, or we will not have any left, since the perfect government has not yet been invented”. Here again, as on commercialisation, he was bound to lose. The victory in the marathon of a barefoot Ethiopian, Abebe Bikila, heralded the emergence of black African countries as a force in world athletics. They flexed other muscles when they threatened to boycott the Tokyo 1964 games until the apartheid state was excluded.

The Rome Olympics gave a boost to campaigns for sexual equality as well as for racial equality. Here, again, Brundage proved a formidable, if temporary, obstacle. He opposed long-distance races for women because he deemed anything longer than once around the oval track to be “unladylike”. One innovation is likely to have pleased the notorious flirt, though. At the opening ceremony the Soviet women athletes were dressed to look like pretty models, sporting white silk dresses with pleated skirts and a Parisian cut to their necklines. The press speculated that their stockier sisters must surely have been excused from the parade. As one New York paper reported: “Even Yves St Laurent could not have masked the lines of the lady shot-putters from Russia.”

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Simon & Schuster; 496 pages; $26.95

New fiction

Damon Galgut's impostor

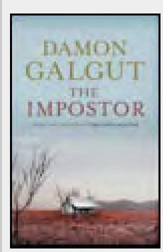
Jul 31st 2008
From The Economist print edition

THE end of apartheid robbed South African novelists of their great theme. But it also freed them from an issue that, like the heroic statue whose shadow falls across the final paragraph of Damon Galgut's "The Impostor", had previously overcast both problems of the past and growing concerns about the future.

Illustration by Daniel Pudles



The Impostor
By Damon Galgut



Atlantic Books; 249 pages; £12.99. To be published in America by Grove Atlantic in January 2009

Buy it at
Amazon.com
Amazon.co.uk

Mr Galgut's latest novel opens with a South African protagonist who in just this way suddenly finds himself at liberty to reconsider his past and re-assess what is to come. Alarmed by the formless ambiguity of the character that this self-examination reveals, the aptly named Adam sets off into the wilderness to revive the poetic aspirations of his youth. However, the dry-baked landscape of the Karoo fails to inspire, and it is not until a chance encounter with an old school friend that both Adam's poetic juices, and the plot, start to flow.

Kenneth Canning has always remembered a life-changing conversation with "Nappy", as Adam was known at school. Although Adam has no recollection of this, he easily succumbs to Canning's admiration and to the appeal of his lush game reserve, which Adam sees as the archetypal South African landscape. When he discovers that Canning is turning the reserve into a golf course, Adam's sense of righteous betrayal prompts the development of his relationship with Baby, Canning's beautiful black wife, from poetic to carnal. The mounting tension that results from all that is unsaid between the two men (who never even address each other by their true names) eventually destroys even the façade of friendship. The fertile idyll is torn open to reveal a dry, dense tangle of corruption whose destructive tendrils creep into every relationship in the book.

"The Impostor" is a slow, measured, beautifully crafted work. The author, like his protagonist, knows about the value and power of words. Adam finds that "he can no longer look at a river, a branch, a stone, and see it for what it is. Instead he sees his own history, written in metaphors." Ultimately, Mr Galgut's South Africa is no simple, fresh Eden, but a country as layered and complex as any of its inhabitants.

The Impostor.
By Damon Galgut.
Atlantic Books; 249 pages; £12.99. To be published in America by Grove Atlantic in January 2009

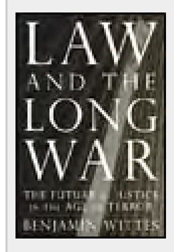
America and terrorism

The long, dark war

Jul 31st 2008
From The Economist print edition

Two saddening accounts of the botched war on terror

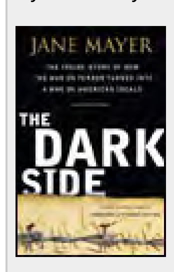
Law and the Long War: The Future of Justice in the Age of Terror
By Benjamin Wittes



The Penguin Press; 305 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

The Dark Side: The Inside Story of How The War on Terror Turned into a War on American Ideals
By Jane Mayer



Doubleday; 392 pages; $27.50

Buy it at
Amazon.com
Amazon.co.uk

IN 1993, Bill Clinton was pondering whether to authorise what is now called an "extraordinary rendition", when American agents snatch a suspected terrorist abroad and deliver him to interrogators in a third country. The White House counsel warned that this would be illegal. President Clinton was in two minds until Al Gore walked in, laughed and said: "That's a no-brainer. Of course it's a violation of international law, that's why it's a covert action. The guy is a terrorist. Go grab his ass."

To understand how the Bush administration went crashing off the rails, it helps to know where the train was coming from. "Law and the Long War" gives a clear and vivid account of how President George Bush and his inner circle came to adopt so many harrowing tactics in their struggle against al-Qaeda and its ilk.

A fellow of the Brookings Institution, a non-partisan think-tank, Benjamin Wittes is scrupulously fair. Doves think that America should close Guantánamo, abstain from interrogations that trouble the conscience and either try its enemies in open court or free them. Hawks think that the president has (and should have) the power to do whatever is necessary to stop a dirty bomb going off in an American city. To Mr Wittes, the right way to deal with groups such as al-Qaeda is "terrifyingly, dangerously, paralysingly non-obvious".

Extraordinary renditions, synonymous today with Mr Bush's excesses, were quite common under Mr Clinton. But they got much uglier after September 11th 2001. The snatches became more frequent, and therefore more prone to error. Rather than simply handing terror suspects over to countries where they faced criminal charges, the CIA started interrogating them itself. Unlike Mr Gore, the Bush administration was not content to break the rules quietly from time to time. Instead, it argued that suspects could be seized and held indefinitely on the president's say-so, and subjected to "enhanced interrogation techniques" that sounded awfully like torture.

The Bush administration was appallingly negligent about abuses at Abu Ghraib. Far more alarming, however, are the abuses it authorised in cold blood. Dick Cheney promised to "work…the dark side" to

defeat al-Qaeda. As Jane Mayer documents in “The Dark Side”, he meant it.

Putting a hood on someone’s head does not, in itself, amount to torture. Nor, necessarily, does depriving him of light or keeping him awake when he is tired. But when such techniques are used in combination and over a long period, they add up to something cruel and unusual. Ms Mayer, a writer for the *New Yorker*, describes horrors in sparse prose. One suspect was shaved, force-fed, sleep-deprived, ordered to bark like a dog, hammered with ear-splitting pop music, kept in a cold room and shackled so he could not pray. He begged to be allowed to commit suicide.

For a straightforward and chilling narrative of where Mr Bush erred, Ms Mayer’s book is the easier read. But Mr Wittes’s analysis is more subtle, and he tries harder to offer solutions. Neither the laws of war nor ordinary criminal laws are suited for the struggle against al-Qaeda, he says. America needs a new, hybrid set of rules.

Mr Bush should have asked Congress to write such rules. Had he done so, he would have received nearly all the powers he wanted, and he would have been seen to act legally. The worst abuses might never have happened, and America would not have seen its reputation for lawfulness dragged through the sewers. Instead, Congress has left it largely to the courts to check the executive; they can do so piecemeal, but it is plainly beyond their competence to devise a whole new set of rules.

Congress has not been wholly idle. Thanks in part to John McCain, the law governing military interrogations has been tightened. But the CIA still uses interrogation tactics that Mr Bush will not name, and Mr Cheney still insists that the decision to use water-boarding (simulated drowning) was a “no-brainer”. By flaunting its contempt for international norms, the administration renders those norms laughing-stocks, laments Mr Wittes.

Law and the Long War: The Future of Justice in the Age of Terror.
By Benjamin Wittes.
The Penguin Press; 305 pages; $25.95

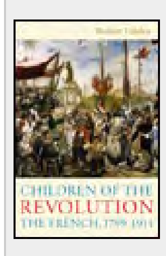
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19th-century France

Children of the revolution

Jul 31st 2008
From The Economist print edition

Children of the Revolution: The French, 1799-1914
By Robert Gildea



Allen Lane; 540 pages; £30. To be published in America by Harvard University Press in September

Buy it at
Amazon.com
Amazon.co.uk

ROBERT GILDEA, Oxford University's fearsomely erudite professor of modern history, has chosen a large canvas—and a wonderful title. What a pity that he fills it with so much detail that the picture loses shape. His thesis is that through a succession of revolutions, in 1789, 1830, 1848 and 1871, France, a country divided by language, class, ethnicity, ideology and religion, finally achieved a sense of common purpose and identity in time to confront Germany in the "Great War" of 1914 and become a great power once more. Five "key generations", Mr Gildea writes, were responsible for this tortured evolution.

Maybe so, but having emphasised the change of generations the good professor then ignores it. Instead, for page after page, names, dates and places come so thick and fast that they conspire to confuse. Pity the reader with no knowledge of France or its history: Mr Gildea makes early reference to the Legitimists and Orleanists but defines these rival royalists only in chapter nine—and never gets round to defining the anti-revolutionary and pro-monarchy insurgents known as the *chouans*.

Yet it would be unfair to write off this book altogether. For one thing Mr Gildea is a historian always worth reading—witness the perceptive analysis of France under Nazi occupation in his 2002 book, "Marianne in Chains". Indeed, his new book's diagnosis of the ills of 19th-century France is a compelling reminder that the social strains in today's France have deep roots.

But the bigger reason to persevere is Mr Gildea's talent, not least in using the literature and theatre of the day, for social commentary. On the role of women, for example, he has two fine chapters (the first he calls "Le Malheur d'être femme", a clever allusion to Germaine de Staël's novel, "Delphine", and to the French translation of Mary Wollstonecraft's "The Wrongs of Woman"). Anecdotes from fact and fiction illustrate not just the plight of women from the peasantry and working class, but also the difficulties of women of the aristocracy who were married off to philandering husbands just like their lower-class sisters, for the sake of inheritance and family advantage. There are similarly acute—often entertaining—observations on class and religion, and an interesting examination of anti-Semitism, including the Dreyfus affair, that could well have had a chapter to itself.

In the end, does Mr Gildea prove his thesis? He argues persuasively that by 1914 "the *grande patrie* of the French nation had come to coexist harmoniously with the *petites patries* to which French men and women were so attached" and that French had become "the lingua franca in public places" in place of France's numerous regional dialects and languages. The economy had also "embraced agricultural and industrial modernisation without doing irreparable damage to its social structure".

One intriguing thing is Mr Gildea's choice of Charles Péguy (a poet who was republican and socialist, but also Catholic "and attached to the values of old France") to conclude his argument. Péguy died in 1914, proudly but stupidly, standing up before the machineguns of the advancing Germans in a war that "left a million and a half bodies on the battlefields of France and Belgium to defend the French Republic and French nation". The nation had indeed been defined—but at a terrible cost.

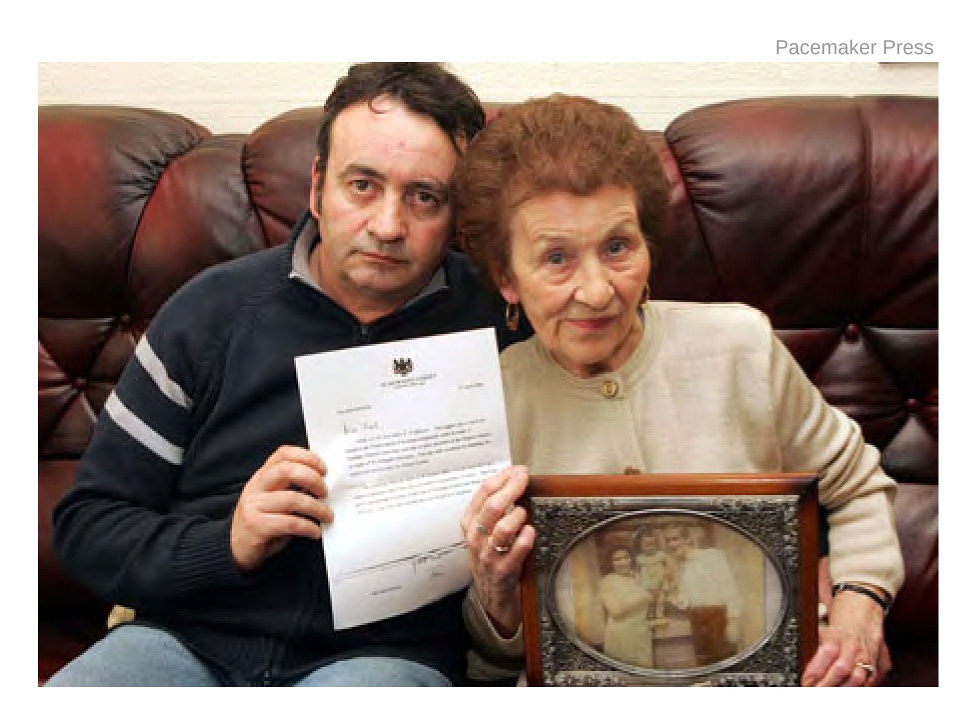
Children of the Revolution: The French, 1799-1914.
By Robert Gildea.
Allen Lane; 540 pages; £30. To be published in America by Harvard University Press in September


PEOPLE
OBITUARY

Sarah Conlon

Jul 31st 2008
From The Economist print edition

Pacemaker Press



Sarah Conlon, campaigner for the innocent, died on July 19th, aged 82

GOD knows she did what she could to keep her son Gerry safe. She called him to be in by seven for his tea, to stop him thinking he might wander down to Gilmartin's pub or to the card-schools on the corner, where a lucky coin or two might fall off the box in front of him. Each evening, until he was 15 and wouldn't do it any more, they would say the rosary together as a family. She taught him his prayers, and made sure that in their house it was Jesus with his Sacred Heart who looked down from the wall, rather than Patrick Pearse or James Connolly. For a household in the Lower Falls, in West Belfast, they were not especially Republican. Sarah Conlon wanted their life to be respectable, holy, and quiet.

It was her graft that held the family together. Up in the morning at seven to scrub the step and their own little section of pavement with scalding water, before she went to work. For years she sorted old clothes at Harry Kane's scrapyard, amazed at the fine stuff people would throw away, jumpers and T-shirts perfectly good enough to pass on to someone needy; later she worked in the kitchens at the Royal Victoria Hospital, dishing out food to patients and mopping the floors. The hours were long, the pay poor; but work was hard to come by for Catholics in Belfast.

Guiseppe, her husband, was too ill to do much. He had worked at Harland & Wolf red-leading the hulls of ships, but the lead had got into his lungs and damaged them. The damp and condensation in the house didn't help, with the steam from the kettle running down the walls and taking off the wallpaper. He had been a strong young man when she first went out with him, fit enough to leap from a ship into Belfast Lough and swim for the shore when they tried to make him, a pacifist, fight in the war. But he was soon coughing with TB and emphysema, and though he went to the sanatorium and she took healthy fruit to him, grapes and pears they could hardly afford, he was never well again.

When she last saw him in 1980 he was in Hammersmith hospital, dying. But he was handcuffed to a bed like a cage, with two warders guarding him. He had been in prison for five years, sentenced because the British police believed he had something to do with the IRA bombings at Guildford and Woolwich in 1974. In truth he had had nothing to do with it at all. He had been in England to get Gerry out of trouble, and it was not the first occasion.

Mrs Conlon's efforts to keep Gerry on the straight and narrow had failed completely. By 14 he was playing truant and pilfering. He went to England at last to get away from the sectarian fighting, a good idea she thought; but he got into bad company, gambled too much on the horses, and kept on stealing.

He turned up once back at home in a shaggy Afghan coat that made him look like the wild man of Borneo; he said it had cost him a fortune. And almost the next time she saw him he too was in prison in England, not for burglary, which he deserved, but for five counts of murder and conspiracy. Her son was now one of the “Guildford Four”, her sick husband one of the “Maguire Seven”, together with her brother Paddy, her sister-in-law Annie and her two schoolboy nephews. The British police, desperate to frame whoever they could, said Annie had a bomb-making factory in her kitchen in Kilburn. But Mrs Conlon knew how tidy she was, her house impeccable, and with a picture of the Queen on the wall.

All the years that Gerry and Guiseppe were in jail she tried to do what she could. She sent weekly parcels, thoroughly packed for fear of damage in the post, of cigarettes and sweets and clippings from the Irish newspapers. She saved up her prison visits for the two weeks of her annual holiday, often spending it in stilted and awkward conversation, with the warder noting down every word of it in case they talked about bombs. Her regular letters always ended the same way: “Pray for the ones who told lies against you… It’s them who needs help as well as yourself.”

Prayer definitely helped. Had she not been doing the Stations of the Cross in the cathedral three nights a week, and had a priest there, Father McKinley, not noticed her crying when the 1977 appeal was turned down, she might never have been able to get her campaign going to free her relations and the others. But within a short time, many others helping, she was harrying MPs and ministers, the taoiseach and Cardinal Basil Hume himself, until in 1989 she was at the Old Bailey, a white carnation in her hand, to see the Guildford Four’s convictions quashed as unsound. The Maguires’ were overturned two years later. And she was not done yet. She had always wanted the British government to apologise, and in 2005 a petition was signed by more than 10,000 people. Tony Blair said sorry, and sent her a copy; and though she never sought the cameras, she posed for them with Gerry and the letter.

Not all her ambitions were fulfilled by the time she died. She wanted a medical centre built, to help the victims of miscarriages of justice recover from the trauma of it. In her own family there had been several breakdowns. Gerry himself still suffered nightmares and stress from the beatings in custody, and could not work. Of course, some might suppose there was not much she could do from Heaven to keep him safe. But she believed she could.

Overview

Jul 31st 2008
From The Economist print edition

House prices in **America** fell by 15.8% in the year to May, according to the S&P/Case-Shiller index of prices in 20 big cities. The year-on-year decline outdid the 15.2% recorded for April.

There were fresh signs that **Japan's** economy is struggling. The unemployment rate rose to 4.1% in June from 4% in May. Industrial production fell by 2% in June. That monthly drop meant that production fell for a second successive quarter. Consumer-price inflation rose from 1.5% to 1.9% in June on the central bank's favoured gauge, which excludes fresh-food prices.

Consumer-price inflation in the **euro area** inched up from 4% to 4.1% in July, according to a preliminary estimate. The unemployment rate was stable at 7.3% in June. Confidence in the economy fell to its lowest level in five years, according to a monthly survey by the European Commission.

India's central bank raised its benchmark interest rate by half a percentage point, to 9%, on July 29th, the third increase in less than two months. The bank said it aimed to bring inflation down to a more "tolerable" level as soon as possible.

GDP in **Britain** rose by 0.2% in the second quarter, leaving it 1.6% higher than in the same quarter in 2007. Figures from the Bank of England showed that the number of mortgages approved for house purchase fell to 36,000 in June, the lowest level since comparable records began in 1993.

Output, prices and jobs

Jul 31st 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment rate‡, %
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	
United States	+2.5 Q1	+1.0	+1.4	+1.3	+0.3 Jun	+5.0 Jun	+2.7	+4.2	5.5 Jun
Japan	+1.3 Q1	+4.0	+1.4	+1.3	+0.2 Jun	+2.0 Jun	-0.2	+1.4	4.1 Jun
China	+10.1 Q2	na	+9.8	+9.0	+16.0 Jun	+7.1 Jun	+4.4	+6.5	9.5 2007
Britain	+1.6 Q2	+0.8	+1.6	+1.2	-1.6 May	+3.8 Jun§	+2.4	+3.4	5.2 May††
Canada	+1.7 Q1	-0.3	+1.3	+2.0	-4.5 Apr	+3.1 Jun	+2.2	+2.0	6.2 Jun
Euro area	+2.1 Q1	+2.8	+1.7	+1.3	-1.9 May	+4.1 Jul	+1.8	+3.5	7.3 Jun
Austria	+2.8 Q1	+2.8	+2.3	+1.9	+5.4 May	+3.9 Jun	+2.0	+3.0	4.1 May
Belgium	+2.0 Q2	+1.2	+1.7	+1.5	+8.1 Apr	+5.9 Jul	+1.4	+3.9	10.0 Jun‡‡
France	+2.0 Q1	+1.8	+1.7	+1.3	-1.2 May	+3.6 Jun	+1.2	+3.2	7.4 May
Germany	+2.6 Q1	+6.3	+2.0	+1.5	+0.8 May	+3.3 Jul	+2.1	+2.9	7.8 Jul
Greece	+3.6 Q1	+4.5	+2.8	+2.8	-6.6 May	+4.9 Jun	+2.6	+4.6	7.7 Apr
Italy	+0.3 Q1	+1.9	+0.4	+0.8	-4.1 May	+4.1 Jul	+1.6	+3.4	6.5 Q1
Netherlands	+3.3 Q1	+1.8	+2.4	+1.7	+0.6 May	+2.6 Jun	+1.7	+2.4	4.0 Jun††
Spain	+2.7 Q1	+1.2	+1.7	+1.2	-7.3 May	+5.0 Jun	+2.4	+4.2	9.9 May
Czech Republic	+5.3 Q1	+3.6	+4.7	+5.4	+3.4 May	+6.7 Jun	+2.5	+6.5	5.0 Jun
Denmark	-0.7 Q1	-2.4	+1.3	+1.4	+7.2 May	+3.8 Jun	+1.4	+3.1	1.6 Jun
Hungary	+1.7 Q1	+1.3	+0.9	+4.7	+5.5 May	+6.7 Jun	+8.6	+6.5	7.6 Jun††
Norway	+0.9 Q1	+0.8	+2.6	+2.3	+2.8 May	+3.4 Jun	+0.4	+3.4	2.5 Apr***
Poland	+6.1 Q1	na	+5.4	+4.3	+7.2 Jun	+4.6 Jun	+2.6	+4.2	9.6 Jun‡‡
Russia	+8.5 Q1	na	+7.5	+6.8	+0.9 Jun	+16.2 Jun	+8.4	+13.9	6.2 Jun‡‡
Sweden	+2.2 Q1	+1.6	+2.1	+2.0	-5.0 May	+4.3 Jun	+1.9	+3.3	8.1 Jun‡‡
Switzerland	+3.1 Q1	+1.3	+2.0	+1.5	+4.4 Q1	+3.1 Jul	+0.7	+2.4	2.5 Jun
Turkey	+6.6 Q1	na	+4.5	+4.3	+2.4 May	+10.6 Jun	+8.6	+11.0	10.7 Q1‡‡
Australia	+3.6 Q1	+2.5	+2.9	+2.8	+2.4 Q1	+4.5 Q2	+2.1	+3.7	4.2 Jun
Hong Kong	+6.8 Q1	+7.4	+4.7	+4.4	-4.4 Q1	+6.1 Jun	+1.4	+5.3	3.3 Jun††
India	+8.8 Q1	na	+7.7	+7.1	+3.8 May	+7.8 May	+6.6	+7.1	7.2 2007
Indonesia	+6.3 Q1	na	+5.9	+5.7	+4.4 May	+11.0 Jun	+5.1	+9.9	8.5 Feb
Malaysia	+7.1 Q1	na	+6.0	+5.8	+2.6 May	+7.7 Jun	+1.4	+5.4	3.6 Q1
Pakistan	+5.8 2008**	na	+3.6	+4.4	+2.7 May	+21.5 Jun	+7.0	+17.6	5.6 2007
Singapore	+1.9 Q2	-6.6	+4.8	+4.9	+2.5 Jun	+7.5 Jun	+1.3	+6.0	2.3 Q2
South Korea	+4.8 Q2	+3.4	+4.4	+4.2	+6.7 Jun	+5.5 Jun	+2.5	+4.2	3.2 Jun
Taiwan	+6.1 Q1	na	+4.3	+4.4	+5.1 Jun	+5.0 Jun	+0.1	+3.4	3.9 Jun
Thailand	+6.0 Q1	+5.9	+4.8	+4.5	+10.5 May	+8.9 Jun	+1.9	+8.5	1.5 Apr
Argentina	+8.4 Q1	+2.4	+6.0	+4.0	+6.1 Jun	+9.3 Jun	+8.8	+9.7	8.4 Q1‡‡
Brazil	+5.8 Q1	+2.9	+4.6	+3.4	+2.4 May	+6.1 Jun	+3.7	+6.1	7.8 Jun‡‡
Chile	+3.0 Q1	+5.8	+3.6	+3.8	-2.4 May	+9.5 Jun	+3.2	+7.5	8.0 May††‡‡
Colombia	+4.1 Q1	-3.7	+4.8	+4.4	-4.3 May	+7.2 Jun	+6.0	+6.7	10.7 May‡‡
Mexico	+2.6 Q1	+2.1	+2.3	+2.5	-1.2 May	+5.3 Jun	+4.0	+4.8	3.6 Jun‡‡
Venezuela	+4.8 Q1	na	+5.2	+3.0	+19.9 Apr	+32.2 Jun	+19.4	+30.6	8.5 Q1‡‡
Egypt	+6.9 Q1	na	+7.1	+6.7	+7.5 2007**	+20.2 Jun	+8.5	+17.1	9.0 Q1‡‡
Israel	+5.2 Q1	+5.4	+3.9	+3.6	+7.2 May	+4.8 Jun	-0.7	+4.2	6.3 Q1
Saudi Arabia	+3.5 2007	na	+7.2	+6.7	na	+10.4 May	+3.0	+8.5	na
South Africa	+4.0 Q1	+2.1	+3.9	+4.4	+0.7 May	+12.2 Jun	+7.0	+9.6	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+0.1 Q1	+7.8	-0.6	+2.0	-4.7 Jun	+11.4 Jun	+5.8	+10.5	4.1 May
Finland	+3.1 Q1	+2.7	+2.8	+2.4	-3.3 Jun	+4.4 Jun	+2.5	+3.8	6.3 Jun
Iceland	+1.1 Q1	-14.0	nil	+0.8	+0.4 2007	+13.6 Jul	+3.8	+12.0	1.1 Jun‡‡
Ireland	-1.5 Q1	-0.9	-1.3	-0.4	+9.2 May	+5.0 Jun	+4.9	+3.6	5.9 Jul
Latvia	+3.3 Q1	na	+2.4	+2.6	-8.5 May	+17.7 Jun	+8.8	+15.0	5.6 May
Lithuania	+5.5 Q2	+4.5	+5.5	+4.8	na	+12.5 Jun	+4.8	+10.4	4.7 Jun‡‡
Luxembourg	+2.5 Q1	+5.3	+3.0	+2.6	+6.4 May	+4.3 Jun	+2.0	+3.9	4.0 Jun‡‡
New Zealand	+0.9 Q1	-2.3	+1.4	+1.7	+2.4 Q1	+4.0 Q2	+2.0	+3.3	3.6 Q1
Peru	+7.3 May	na	+7.9	+6.6	+4.6 May	+5.7 Jun	+1.6	+5.1	7.4 Jun‡‡
Philippines	+5.1 Q1	+3.0	+4.8	+5.7	+5.2 Apr	+11.4 Jun	+2.3	+8.3	8.0 April‡‡
Portugal	+0.9 Q1	-1.0	+1.4	+1.3	-6.4 May	+3.4 Jun	+2.4	+2.7	7.6 Q1‡‡
Slovakia	+8.7 Q1	na	+7.5	+5.2	+4.0 May	+4.6 Jun	+2.5	+4.2	7.4 Jun‡‡
Slovenia	+5.4 Q1	na	+4.5	+4.0	-0.8 May	+7.0 Jun	+3.6	+5.5	6.5 May‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.6% in June. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Jul 31st 2008
From The Economist print edition

The Economist commodity-price index

2000=100

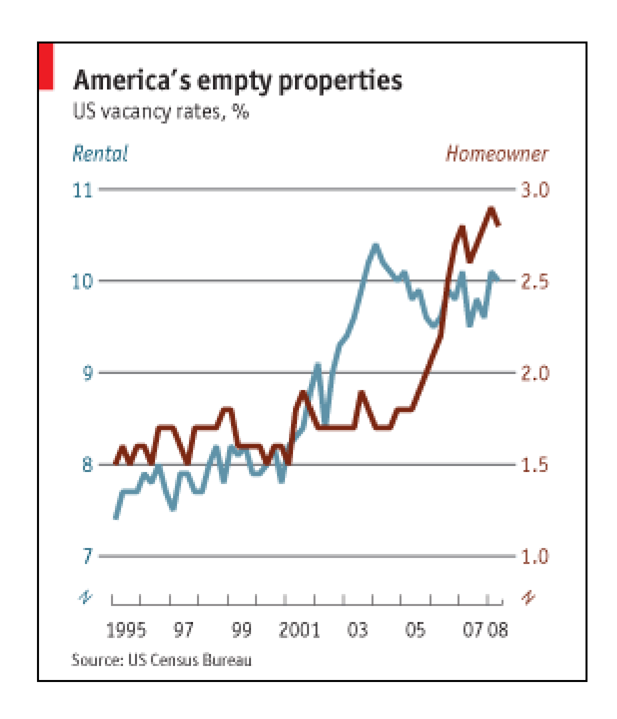
	Jul 22nd	Jul 29th*	% change on one month	% change on one year
Dollar index				
All items	255.3	250.9	-7.8	+23.0
Food	254.8	252.8	-9.9	+46.5
Industrials				
All	255.8	248.4	-4.9	+1.5
Nfa†	201.3	199.9	-3.5	+21.9
Metals	285.7	275.0	-5.5	-4.7
Sterling index				
All items	193.9	192.1	-7.3	+26.2
Euro index				
All items	149.1	148.8	-6.9	+8.0
Gold				
$ per oz	957.80	918.20	-2.6	+38.1
West Texas Intermediate				
$ per barrel	127.64	122.20	-13.6	+56.4

*Provisional †Non-food agriculturals.



America's empty properties

Jul 31st 2008
From The Economist print edition



The proportion of America's housing stock that lies empty awaiting either tenants or buyers has risen over the past decade, according to the Department of Commerce's Census Bureau. Among rental properties, 10% were without tenants in the second quarter, a higher share than a year earlier but below the recent peak of 10.4% in 2004. The share of empty properties awaiting a buyer—the so-called homeowner vacancy rate—was 2% or below until 2006, at which point the housing boom started to hit trouble. The rate has since risen to 2.8% nationally; in big cities it is higher still, at 3.5%. Empty properties for rent are scarcest in America's Western region. The rental vacancy rate there is 6.9%.



Trade, exchange rates, budget balances and interest rates

Jul 31st 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance*	Current-account balance		Currency units, per $		Budget balance	Interest rates, %	
	latest 12 months, $bn	latest 12 months, $bn	% of GDP 2008†	Jul 30th	year ago	% of GDP 2008†	3-month latest	10-year gov't bonds, latest
United States	−835.2 May	−710.7 Q1	−4.9	–	–	−2.4	1.94	4.05
Japan	+101.0 May	+215.1 May	+4.1	108	119	−2.7	0.75	1.54
China	+248.7 Jun	+371.8 2007	+9.3	6.83	7.57	0.4	4.35	4.87
Britain	−185.4 May	−102.4 Q1	−4.1	0.51	0.49	−3.8	5.76	4.84
Canada	+45.7 May	+14.5 Q1	+0.8	1.02	1.06	0.2	2.41	3.80
Euro area	+12.9 May	−14.2 May	−0.3	0.64	0.73	−0.9	4.96	4.42
Austria	+0.8 Apr	+14.8 Q1	+3.0	0.64	0.73	−0.6	4.96	4.59
Belgium	+11.6 Apr	−1.1 Mar	+1.6	0.64	0.73	−0.5	5.03	4.76
France	−66.3 May	−41.6 May	−1.6	0.64	0.73	−2.9	4.96	4.59
Germany	+277.4 May	+268.9 May	+6.3	0.64	0.73	1.2	4.96	4.41
Greece	−61.8 Apr	−48.7 May	−13.9	0.64	0.73	−2.6	4.96	4.98
Italy	−11.8 May	−63.5 May	−2.6	0.64	0.73	−2.6	4.96	5.01
Netherlands	+60.4 May	+50.7 Q1	+6.0	0.64	0.73	0.7	4.96	4.59
Spain	−151.1 May	−163.9 May	−9.5	0.64	0.73	−1.1	4.96	4.73
Czech Republic	+5.0 May	−3.6 May	−2.6	15.4	20.5	−2.2	3.99	4.53
Denmark	+4.8 May	+3.5 May	+0.9	4.80	5.44	3.8	5.70	4.70
Hungary	+0.5 May	−7.2 Q1	−3.6	148	184	−4.3	8.51	7.94
Norway	+73.9 Jun	+68.8 Q1	+17.1	5.15	5.84	17.7	6.39	4.90
Poland	−17.8 May	−20.9 May	−4.9	2.06	2.78	−1.9	6.56	6.31
Russia	+164.1 May	+109.8 Q2	+6.0	23.5	25.6	3.6	11.00	6.65
Sweden	+18.3 Jun	+40.4 Q1	+8.1	6.07	6.77	2.4	4.24	4.29
Switzerland	+15.5 Jun	+91.4 Q1	+15.1	1.05	1.20	0.9	2.76	3.12
Turkey	−69.7 May	−43.0 May	−6.4	1.18	1.29	−2.7	18.58	7.08‡
Australia	−18.4 Jun	−61.4 Q1	−5.5	1.06	1.17	1.4	7.77	6.27
Hong Kong	−26.6 Jun	+26.6 Q1	+9.0	7.80	7.83	3.0	2.30	3.55
India	−85.0 May	−17.5 Q1	−3.0	42.4	40.5	−3.4	9.25	9.80
Indonesia	+38.0 May	+10.9 Q1	+2.7	9,123	9,305	−1.9	9.78	7.25‡
Malaysia	+36.2 May	+30.6 Q1	+13.9	3.26	3.47	−3.1	3.70	4.49‡
Pakistan	−20.7 Jun	−10.5 Q1	−8.6	71.6	60.4	−6.7	13.20	11.93‡
Singapore	+28.5 Jun	+35.8 Q1	+19.4	1.37	1.52	1.0	1.13	2.91
South Korea	+1.0 Jun	+2.2 Jun	−2.5	1,014	925	1.5	5.65	5.80
Taiwan	+13.8 Jun	+32.2 Q1	+5.2	30.5	32.9	−1.8	2.75	2.46
Thailand	+7.8 May	+13.2 May	−0.4	33.5	33.8	−3.0	3.80	4.95
Argentina	+10.8 Jun	+7.9 Q1	+2.9	3.03	3.13	1.7	14.19	na
Brazil	+30.8 Jun	−18.1 Jun	−1.3	1.56	1.88	−1.6	12.92	6.16‡
Chile	+18.9 Jun	+4.3 Q1	+0.5	504	524	8.9	6.84	4.42‡
Colombia	+0.6 May	−5.0 Q1	−2.5	1,790	1,973	−1.6	9.61	5.86‡
Mexico	−7.8 Jun	−4.8 Q1	−0.8	10.0	11.0	−0.1	8.09	8.87
Venezuela	+30.1 Q1	+26.7 Q1	+12.1	3.25	4.23§	1.6	17.20	6.55‡
Egypt	−22.2 Q1	−0.1 Q1	+0.2	5.31	5.65	−7.1	8.15	5.24‡
Israel	−13.4 Jun	+4.4 Q1	+0.2	3.49	4.33	−1.3	3.95	5.30
Saudi Arabia	+150.8 2007	+95.0 2007	+36.9	3.75	3.75	22.3	3.85	na
South Africa	−11.0 May	−22.3 Q1	−8.0	7.39	7.15	0.4	12.30	9.42
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	−4.2 May	−3.3 May	−10.5	10.1	11.4	−0.4	6.37	na
Finland	+12.2 May	+9.6 May	+4.5	0.64	0.73	4.5	4.90	4.59
Iceland	−1.3 Jun	−3.5 Q1	−14.6	80.3	62.7	2.0	15.97	na
Ireland	+38.4 May	−14.7 Q1	−5.2	0.64	0.73	−4.1	4.96	4.75
Latvia	−6.7 May	−6.0 May	−15.5	0.45	0.51	nil	5.77	na
Lithuania	−7.8 May	−6.0 May	−11.3	2.22	2.52	−0.7	5.81	na
Luxembourg	−6.6 May	+4.9 Q1	na	0.64	0.73	0.5	4.96	na
New Zealand	−3.4 Jun	−10.4 Q1	−7.1	1.36	1.31	1.2	7.70	6.16
Peru	+7.8 May	+0.8 Q1	−1.0	2.81	3.16	2.4	5.95	na
Philippines	−8.0 May	+5.6 Mar	+2.6	44.1	45.9	−0.9	5.31	na
Portugal	−30.3 Apr	−26.7 May	−9.0	0.64	0.73	−2.5	4.96	4.86
Slovakia	−0.9 May	−4.3 Mar	−4.2	19.5	24.5	−2.1	3.49	4.97
Slovenia	−3.6 Apr	−2.9 May	−5.8	0.64	0.73	0.1	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.



Markets

Jul 31st 2008
From The Economist print edition

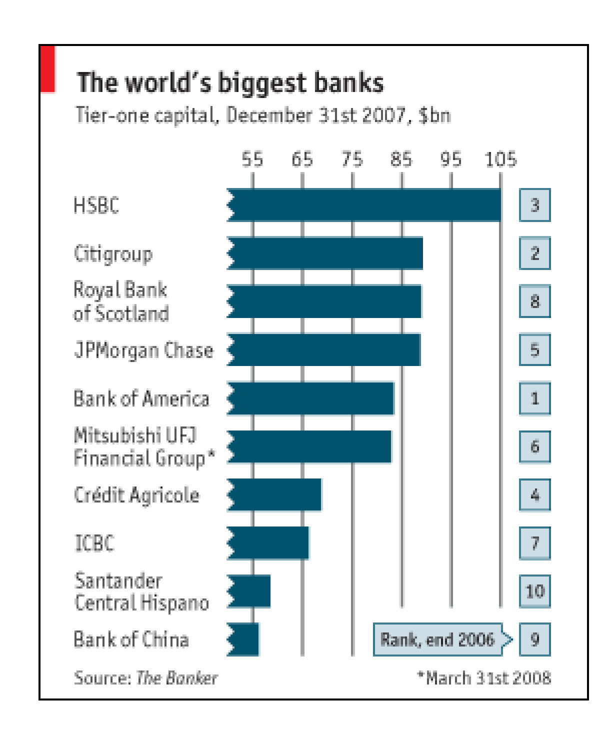
Markets

	Index Jul 30th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	11,583.7	-0.4	-12.7	-12.7
United States (S&P 500)	1,284.3	+0.2	-12.5	-12.5
United States (NAScomp)	2,329.7	+0.2	-12.2	-12.2
Japan (Nikkei 225)	13,367.8	+0.4	-12.7	-9.8
Japan (Topix)	1,303.0	nil	-11.7	-8.8
China (SSEA)	2,975.7	nil	-46.1	-42.3
China (SSEB, $ terms)	212.4	-0.6	-45.8	-42.0
Britain (FTSE 100)	5,420.7	-0.5	-16.0	-16.5
Canada (S&P TSX)	13,683.2	+1.3	-1.1	-4.6
Euro area (FTSE Euro 100)	1,046.7	-0.9	-23.9	-19.0
Euro area (DJ STOXX 50)	3,367.3	-0.6	-23.5	-18.6
Austria (ATX)	3,641.8	-2.2	-19.3	-14.1
Belgium (Bel 20)	3,030.3	-3.6	-26.6	-21.9
France (CAC 40)	4,400.6	-0.2	-21.6	-16.6
Germany (DAX)*	6,460.1	-1.2	-19.9	-14.8
Greece (Athex Comp)	3,396.6	-3.1	-34.4	-30.2
Italy (S&P/MIB)	28,415.0	-1.5	-26.3	-21.6
Netherlands (AEX)	404.4	-0.2	-21.6	-16.6
Spain (Madrid SE)	1,271.1	-0.9	-22.6	-17.6
Czech Republic (PX)	1,474.0	-0.1	-18.8	-4.1
Denmark (OMXCB)	384.0	-0.6	-14.4	-9.0
Hungary (BUX)	22,511.3	+4.1	-14.2	-0.1
Norway (OSEAX)	486.2	+1.3	-14.7	-10.1
Poland (WIG)	42,416.4	+4.2	-23.8	-9.1
Russia (RTS, $ terms)	1,949.0	-7.7	-18.7	-14.9
Sweden (Aff.Gen)	267.5	-1.4	-21.4	-16.2
Switzerland (SMI)	7,108.9	+0.7	-16.2	-9.6
Turkey (ISE)	41,342.3	+7.2	-25.6	-26.0
Australia (All Ord.)	5,008.7	-3.0	-22.0	-15.9
Hong Kong (Hang Seng)	22,690.6	-1.9	-18.4	-18.5
India (BSE)	14,287.2	-4.4	-29.6	-34.5
Indonesia (JSX)	2,278.7	+2.4	-17.0	-14.6
Malaysia (KLSE)	1,159.9	+1.8	-19.7	-18.6
Pakistan (KSE)	10,853.0	-1.5	-22.9	-33.6
Singapore (STI)	2,925.5	-1.8	-15.6	-11.2
South Korea (KOSPI)	1,577.7	-0.9	-16.8	-23.2
Taiwan (TWI)	7,070.4	-3.3	-16.9	-11.6
Thailand (SET)	669.9	-3.5	-21.9	-21.5
Argentina (MERV)	1,949.8	+0.5	-9.4	-5.7
Brazil (BVSP)	59,997.0	+1.0	-6.1	+7.1
Chile (IGPA)	14,324.6	+2.5	+1.7	+0.6
Colombia (IGBC)	8,938.9	+1.6	-16.4	-5.8
Mexico (IPC)	27,474.0	-0.6	-7.0	+1.2
Venezuela (IBC)	39,627.3	+1.4	+4.5	-30.9
Egypt (Case 30)	9,134.1	-1.8	-12.8	-9.4
Israel (TA-100)	946.3	-0.4	-18.0	-9.5
Saudi Arabia (Tadawul)	8,740.7	-3.7	-20.8	-20.8
South Africa (JSE AS)	27,767.6	+1.4	-4.1	-11.3
Europe (FTSEurofirst 300)	1,180.8	-0.7	-21.6	-16.6
World, dev'd (MSCI)	1,374.9	-0.8	-13.5	-13.5
Emerging markets (MSCI)	1,039.0	-1.0	-16.6	-16.6
World, all (MSCI)	347.5	-0.8	-13.8	-13.8
World bonds (Citigroup)	765.6	+0.4	+4.8	+4.8
EMBI+ (JPMorgan)	436.4	+0.3	+0.6	+0.6
Hedge funds (HFRX)	1,275.3	-0.3	-4.1	-4.1
Volatility, US (VIX)	21.2	21.3	22.5	(levels)
CDSs, Eur (iTRAXX)†	89.2	-2.3	+76.3	+87.6
CDSs, N Am (CDX)†	138.5	+0.5	+58.1	+58.1
Carbon trading (EU ETS) €	22.7	-8.3	+2.1	+8.7

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

The world's biggest banks

Jul 31st 2008
From The Economist print edition



HSBC became the world's biggest bank last year, supplanting Bank of America, according to *The Banker* magazine, which ranks 1,000 banks by their holdings of tier-one capital. This is a bank's core capital, which is made up of equity, accumulated reserves and earnings that have not been paid out as dividends. Royal Bank of Scotland (RBS) jumped from eighth to third in the list. Based on the size of its assets, RBS is ranked number one, followed by Deutsche Bank, which is outside the top 20 banks graded by tier-one capital. Bank of China and ICBC, another Chinese bank, retained their positions in the top ten. Both enjoyed stronger profits growth than their peers last year.